Exhibit No. 11
Date 3-3-2009
Bill No.

Reappraisal Subcommittee
March 3, 2009

Reappraisal Cycle Costs
Over Current Level

- 2 Year Cycle
- 3 Year Cycle
- 4 Year Cycle

TWO YEAR REAPPRAISAL CYCLE COSTS OVER CURRENT BUDGET

(No Oblique Imagery)

Includes the New Self Reporting Process

Note: Two Year Cycle may cause problems in determining timely mitigation strategies by the Legislature

PERSONAL SERVICES

FY2010 - $ 1,366,840
FY2011 - $ 2,853,146
FY2012 - $ 2,841,318
FY2013 - $ 3,284,671

OPERATIONAL EXPENSES

FY2010 - $ 1,427,806
FY2011 - $ 2,441,161
FY2012 - $ 2,238,688
FY2013 - $ 2,017,015

TOTAL EXPENSES (OVER CURRENT BUDGET LEVEL)

FY2010 - $ 2,794,646
FY2011 - $ 5,294,307
FY2012 - $ 5,080,006
FY2013 - $ 5,301,686

ADDITIONAL EXPENSES FOR INTERIM YEAR VALUATION ADJUSTMENTS

FY2010 - $ 393,355
FY2012 - $ 393,355

SUMMARY – OPTION 1 – 2-YEAR REAPPRAISAL CYCLE

- 2- Year Reappraisal Cycle
- Cycle begins 1/1/2010
- Cycle ends 12/31/2011
- Base year for the reappraisal cycle = 1/1/2011
- Reappraisal values effective for Tax Year 2012

This option includes:

- A contract to determine market model time trend adjustments.
- A contract to perform a capitalization rate study for commercial property valuation.
- Requiring submission of Income and Expense Information from taxpayers.
- Conducting a housing-market analysis in FY2012.
- Mailing of agricultural and forest land ownership and use maps to taxpayers in FY2012.
- Using a self-reporting process.
- Meetings with an Agricultural Land Valuation Advisory Committee in FY2011 and FY2013.
- Acquisition of new aerial photography for agricultural and forest land reappraisal – to detect changes in use in FY2010, FY2011, FY2012 and FY2013.
- Meetings with a forest land valuation advisory committee in FY2011 and FY2013.
- A contract to update forest land information in FY2011 and FY2013.
- A contract to update forest land income information in FY2011 and FY2013.
- DNRC to update forest land expenses in FY2011 and FY2013.
- More extensive field travel by staff to complete reappraisal field reviews in FY2010, FY2011, FY2012 and FY2013.
- Additional vehicles for additional staff in FY2010, FY2011, FY2012, FY2013.
- Additional personnel costs (one-time and annual) for new staff in FY2010, FY2011, FY2012 and FY2013.
- Taxpayer education expenses in FY2010, FY2011, FY2012 and FY2013.
- Assessment notices to all Class 3, Class 4 and Class 10 property owners mailed in FY2012 (1st Half).

Number of Additional FTE (above current level) required for this option:

- 7 appraisers for FY2010 to pick up new construction and use changes, plus
- 4 appraisers for FY2011 to pick up new construction and use changes, plus
- 4 appraisers for FY2012 to pick up new construction and use changes, plus
- 4 appraisers for FY2013 to pick up new construction and use changes, plus 42.2 appraisers to complete reappraisal field reviews in FY2010; 43.3 appraisers to complete reappraisal field reviews in FY2011; and 43.8 appraisers to complete reappraisal reviews in FY2012, and 44.3 appraisers to complete reappraisal reviews in FY2013

- 1 half-time Management Analyst to complete new cost tables in FY2011
- 1 half-time Management Analyst to complete new cost tables in FY2013

Reappraisal Interim Year – Time Trend Adjustments:

- A contract to perform sale/assessment ratio studies – time trend analyses and recommend interim year valuation adjustments for residential properties
- Annual assessment notices for residential property in FY2010 and FY2012

2-YEAR REAPPRAISAL CYCLE
COSTS OVER CURRENT LEVEL THAT WOULD BE ASSOCIATED WITH A 2-YEAR CYCLE

Assumptions

General

- The new cycle would start 1/1/2010

- Budget authority would be provided by the 2009 Legislature
  - Funding would be available beginning 7/1/2009 (FY2010)

- The new 2-year cycle would end on 12/31/2011 and 12/31/2013

- New reappraisal values would be effective for tax year 2012 and 2014

- Under the current 6-year reappraisal all real property and personal property mobile homes are only printed in the first year of the reappraisal. In subsequent years only changes are printed and mailed. Instead of printing all assessments once every 6 years, they would be printed once every 2 years. (Assessments mailed by 6/30/2012). The change in length of the cycle will require the Department to mail out assessments to all property owners more often than done currently. This will result in a higher cost, but under a new 2-year cycle the increased costs would not be realized until FY2012.

FY2012 – Operating Cost

Printing of Assessments	$0.32 X 634,781 =	$203,130
Mailing Assessments	$0.38 X 634,781 =	$241,216
Total		**$444,346**

- A mitigation strategy would be implemented by the legislature in order to maintain taxable value neutrality for each reappraisal cycle – this would cause no dramatic increase in appeals or requests for informal property reviews.

- Taxpayer Education efforts would continue. Each reappraisal cycle the Department undertakes a program to educate the public about the cyclic reappraisal of Classes 3, 4 and 10 properties. The public education program includes advertisements in newspapers and public service announcements (PSA) on radio and television. The estimated FY2012 cost would be $106,000.

FY2012 Operating Cost
$ 106,000

- A 1.2% increase in parcels per year

Agricultural/Forest Land Reappraisal

- National Agriculture Imagery Program (NAIP) – a new flight of aerial photography would be required in order to maintain agricultural and forest land use changes current. The Aerial Photography Field Office (APFO) is the primary source of aerial imagery for the United States Department of Agriculture. Among the other programs administered by the APFO is the National Agriculture Imagery Program (NAIP). NAIP acquires imagery during the agricultural growing seasons in the continental U.S. A primary goal of the NAIP program is to enable availability of digital orthophotography within a year of acquisition.

  To accomplish the goals of a 2-year appraisal cycle, NAIP imagery would need to be acquired. After acquisition, the latest NAIP imagery is compared to the previous year's imagery. Coupled with other available information, the comparison process will allow the Department to identify changes in use associated with agricultural lands. The cost of acquiring statewide NAIP imagery is estimated at $ 30,000 each year of the cycle. Typically the cost of the latest imagery is shared between various state agencies. As part of the cost-share approach to acquiring NAIP imagery, the DOR cost would be $ 30,000 each year of the cycle.

Operating Cost	
FY2010	**$30,000**
FY2011	**$30,000**
FY2012	**$30,000**
FY2013	**$30,000**

- Farm Services Agency (FSA) – annual updates of Certified Land Unit (CLU) line work delineating boundaries of farmland from grazing land would be required.

- Natural Resources Conservation Service (NRCS) soil survey updates would be required annually. Any updated soil survey information is essential in maintaining the integrity of the system used in valuing agricultural land.

- Energy costs for irrigated land would be collected every two years if the 5 agricultural land use type system continues.

- Continuation of using the 5 agricultural land use type system for valuing agricultural land (grazing, non-irrigated summer fallow farm land, non-irrigated continuously cropped farm land, non-irrigated continuously cropped hay land, and tillable irrigated farm land).

- The influence of the current Farm Bill on farm land income would be determined.

- Mailing agricultural land and forest land ownership and use maps. The Department will mail to each agricultural and/or forest land owner pertinent appraisal information. The information will include maps of the individuals' properties, instructions and other information to assist the individual in determining the accuracy of our reappraisal efforts.

Create two sets of township maps for review purposes; 1 set for manual review/corrections and the 2nd corrected set for county office use = $40,000 in FY2011. This cost would be incurred in the last year of the 2-year cycle.

<u>FY2012 (1st Half) Operating Cost</u>
$40,000

The department would mail maps to each individual landowner for their review and correction prior to the end of the cycle. Along with the cost of producing the maps and mailing them to the individuals, a public relations campaign would be undertaken to notify and explain the map delivery. The cost estimates for the agricultural/forest land map mailings are:

<u>FY2012 (2nd Half) Operating Cost</u>

Create maps	-	$34,585
Mail maps	-	$19,250
Public information	-	$39,355
		$93,190

These costs would be incurred in the last year of the 2-year cycle.

- Meetings of the Governor's Agricultural Land Valuation Advisory Committee will continue. Each reappraisal cycle the Governor appoints individuals knowledgeable about farm practices and farm economics. The Committee reviews information relevant to the determination of value of agricultural lands. If the Committee so chooses, they can make recommendations to the Department for changes in the practices of determining the value of agricultural land.

  The Committee would need to meet prior to the completion of the reappraisal of agricultural lands. For a nine (9) member Committee, the estimated cost for each meeting is approximately $4,600 in FY2011. This cost would be incurred during the last year of the 2-year cycle.

  <u>FY2011 Operating Cost</u>
  4 meetings @ $4,600 - **$18,400**

  <u>FY2013 Operating Cost</u>
  4 meetings @ $4,600 - **$18,400**

- Meetings of the Governor's Forest Land Valuation Advisory Committee will take place. Each reappraisal cycle the Governor appoints individuals knowledgeable about forest practices and forest economics. The Committee reviews information relevant to the determination of value of forest lands. If the Committee should choose they can make recommendations to the Department for changes in the practices of determining the value of forest land. The Committee would need to meet prior to the completion of the reappraisal of forest lands. For a nine (9) member Committee, the estimated cost for each meeting is approximately $4,600 in FY2011. This cost information is from HB72 in the 2005 Legislative Session and is an FY08 estimate. This cost would be incurred during the last year of the 2-year cycle.

<u>FY2011 Operating Cost</u>
4 meetings @ $4,600 - **$18,400**

<u>FY2013 Operating Cost</u>
4 meetings @ $4,600 - **$18,400**

- The department will be required to contract with someone to create or update the forest land information. In prior cycles, that has been the University of Montana/School of Forestry and Conservation. Estimated costs for contracted services are approximately $200,000 based on recent contract information. This cost would be anticipated to occur during last year of the 2-year cycle

<u>FY2011 Operating Cost</u>
$200,000

<u>FY2013 Operating Cost</u>
$200,000

- Forest land income would continue to be provided by the University of Montana, retired professor Dr. David Jackson, or someone of equal stature, once every two years. Costs associated with this contract would be anticipated to occur during FY2011 and FY2013 of the 2-year cycles.

<u>FY2011(1st Half) Operating Cost</u>
$10,000

<u>FY2013 (1st Half) Operating Cost</u>
$10,000

- Forest land expenses would continue to be provided by the Department of Natural Resources and Conservation (DNRC). The cost of acquiring and compiling this information would be anticipated to occur the last year of the 2-year cycle.

Residential/Commercial Property

- The DOR would use current technology to help accomplish the reappraisal of residential and commercial properties every 2 years.
  - GPS – Global Positioning System
  - Self-reporting forms

- The Department would contract with an expert for the determination of the time trend adjustments needed for market modeling.

<u>FY2011 (2nd Half) Operating Cost</u>
$60,000

FY2013 (2nd Half) – Operating
$60,000

- The historical process of verifying sales would continue. That is, for a 2-year reappraisal cycle, sales would be verified during the first year of the cycle, with active sales verifications being suspended for the second year. However, if it is determined for the proposed 2-year cycle that the sales for the first 6 months of the final year of the cycle should be verified and made a part of the market modeling process, there would be a cost increase over current level for accomplishing such analysis. This additional effort would be focused on the 7 largest counties in the state, based on the Department's current experience in verifying and analyzing the first 6 months of 2008 sales for the current reappraisal cycle. This additional work effort, if determined to be necessary for future reappraisal cycles would impact workload and staffing requirements for the first 6 months of FY2011 and FY2013. Those increased costs for FY2011 and FY2013 are calculated as follows:

FY2011 Personal Services

6,240 sales parcels X 1.5 hours = 9,360 hours of work
9,360 hours of increased work ÷ 1760 effective work hours per FTE = 5.3 new FTE

5.3 FTE (Appraisers) X	$34,560 = $ 183,168	plus benefits @ 17%	= $ 214,307
plus health Insurance	= 5 X $7,512		= $ 37,560
			$ 251,867

FY2011 (2nd Half) - Personal Services
$251,867

FY2013 (2nd Half) - Personal Services
$251,867

One Time Costs for additional personnel

Cameras	$ 130
GPS	$ 215
Cubicle work area, counter, bookcase, walls, 2 drawer cabinet	$3,500
PC & Printer	$1,600
Chair	$ 350
Calculator	$ 100
Computer/Phone (cost of duplex jack)	$ 350
Total one time costs	$6,245 X 6 = $ 37,470

Annual Costs:

PC Replacement (1/4 replacement)	$ 400
Network costs	$ 960

Supplies	$ 200
Phone (Basic rate $336)+(Long distance $100)	$ 436
Rent Non-DOA Building (250 sq. ft. x $15.00)	$3,750
Training	$ 200
Total annual costs	$5,946 X 6 = $ 35,676

FY2011 (2nd Half) – Operating
$ 73,146

FY2013 (2nd Half) – Operating
$ 73,146

- The Department of Revenue conducted housing market analyses for the current 6-year reappraisal cycle. That consisted of holding facilitated focus group meetings at 18 locations throughout Montana and contracting with experienced housing market professionals for additional analyses. Those analyses were quite productive, insightful and worthy of continued consideration for each reappraisal cycle. Additional budget authority to cover the facilitated meetings and the contract for service expenses are included. The meeting costs are estimated at $ 32,900 which includes (air travel to 10 select sites – 1 flight per 2 sites @ $1500 per meeting; facilitator @ $ 20,000; per diem @ $100/meeting; meeting refreshments @ $200/meeting). Based on our experience in 2008, contracting for out-side housing market analyses is estimated at $ 50,000.

FY2012 (1st Half) - Operating
$ 50,000

- The department would contract with an expert to perform a capitalization rate study for commercial property structure types. Those capitalization rate(s) would be used for the valuation of commercial properties.

FY2011 (2nd Half) - Operating
$ 75,000

FY2013 (2nd Half) - Operating
$ 75,000

- Require the submission of income & expense information on commercial properties. The Income Approach is the preferred approach for the valuation of commercial property. That approach involves identifying the gross income of a property, subtracting justified expenses to determine a net operating income and capitalizing that income into an estimate of value through use of a capitalization rate. An integral part of that approach is securing income and expense information. The Department annually requests income and expense information from commercial property owners. Even though that information is held confidential by the Department of Revenue, it is not currently required by law. As a result, historically the return rate has been low. If the Department is to provide a fair and equitable property tax system to the citizens of Montana, the

Department should be allowed, similar to other taxing jurisdictions such as Calgary, Alberta, to require the submission of income and expense information. This option contemplates that requirement. This option would include statutory language similar to the approach identified in 15-7-139 (7). That is an appeal board would not adjust the estimated value of the real or personal property unless the property owner or the property owner's agent accurately completed and returned the income and expense reporting form to the department. Since the cost of creating and mailing income and expense forms is currently contained in the "base" of the Department's budget, no additional funding is required. As with the self reporting requirement, the department proposes to provide an option for taxpayers to return the information electronically through a secure online system similar or based on the department's online services for state taxes.

- Cost table will be updated. Under the current 6-year cycle, the cost tables are updated every 6 years, this would occur every 2 years with a shortened cycle. Update of cost tables includes collection of the cost to construct all structure types, analysis of the costs on a statewide basis, and the update of actual cost tables in ORION. The collection and compilation of information along with the table update requires additional staffing over a 6 month timeframe (January through June 2010) in FY2010 and FY 2012.

FY2010 – Personal Services

Temporary Staff (1) 1040 hrs @ $19.73/hour = **$20,520** (Based on the level of pay a temporary Management Analyst) (1st 2-year reappraisal Cycle)

FY2012 – Personal Services

Temporary Staff (1) 1040 hrs @ $19.73/hour = **$20,520** (Based on the level of pay a temporary Management Analyst) (2nd 2-year reappraisal Cycle)

The implementation of a 2-year reappraisal cycle, given the stated assumptions, would result in annual cost increases to the DOR in order to enable completion of the reappraisal in 2 years rather than in the 6 years as provided for in current law. Those additional costs for the upcoming FY2010/FY2011 Biennium and FY2012FY2013 Biennium are discussed and shown below.

Provide Additional Staff to the Property Assessment Division

Identifying and valuing new construction and land use changes is linked directly to parcel growth in Montana. During the 2007 legislative session, the Department requested additional staff - 24 FTE in FY 2008 and an additional 8.00 FTE in FY 2009. The proposal addressed the fact that staff had been reduced by 17% in recent years while workload has increased by over 24%. In 1994, the workload level was 2,163 parcels per FTE. As of 2007, the workload had climbed to 3,102 parcels per FTE. The 2007 legislature provided 10 additional FTE, of which 8 FTE were devoted to appraisal activities, which reduced the workload to 3,058 parcels per FTE in 2008. Though growth in Montana continues, the legislature has spoken. It determined that the 2008 workload level of the Property Assessment Division was acceptable. With this request we are honoring that decision. The Division is not requesting additional staff to reduce the 3,058 parcels per FTE level. Rather it is requesting additional staff to maintain that level – nothing more. Before 2005, the rate of growth was 2.5%, while between 2006 and 2007 it slowed to 1.5%. The parcel growth rate from 2007 to 2008 slowed even further to 1.2% - much lower than prior years. For this option, the current growth rate of 1.2% was used to extrapolate parcel counts in 2009, 2010, 2012 and 2013. As the following line graph displays, in order to maintain the 2008 workload level taking into consideration the increased parcels that will occur through fiscal year 2013, the Division needs 19 additional FTE (7 FTE in FY2010, 4 FTE in FY2011, 4 FTE in FY2012 and 4 FTE in FY2013).

Although this proposal is reflecting the need of completing a 2-year reappraisal cycle, the need for the increase in staff to maintain a 3,053 parcels per FTE continues through the next biennium.

FY2010 7 FTE @ $34,560 = $241,920 plus 17% benefits		=	$283,046
Plus health insurance	7 FTE X $7512	=	$ 52,584
			$335,630
FY2011 11 FTE @ $34,560 = $380,160 plus 17% benefits		=	$444,787
Plus health insurance	11 FTE X $7512	=	$ 82,632
			$527,419
FY2012 15 FTE @ $34,560 = $518,400 plus 17% benefits		=	$606,528
Plus health insurance	15 FTE X $7512	=	$112,680
			$719,208
FY2013 19 FTE X $34,560= $ 656,640 plus 17% benefits		=	$768,269
Plus health insurance	19 FTE X $7,512 =		$142,728
			$910,997

Personal Services
FY2010 = $ 335,630
FY2011 = $ 527,419
FY2012 = $ 719,208
FY2013 = $ 910,997

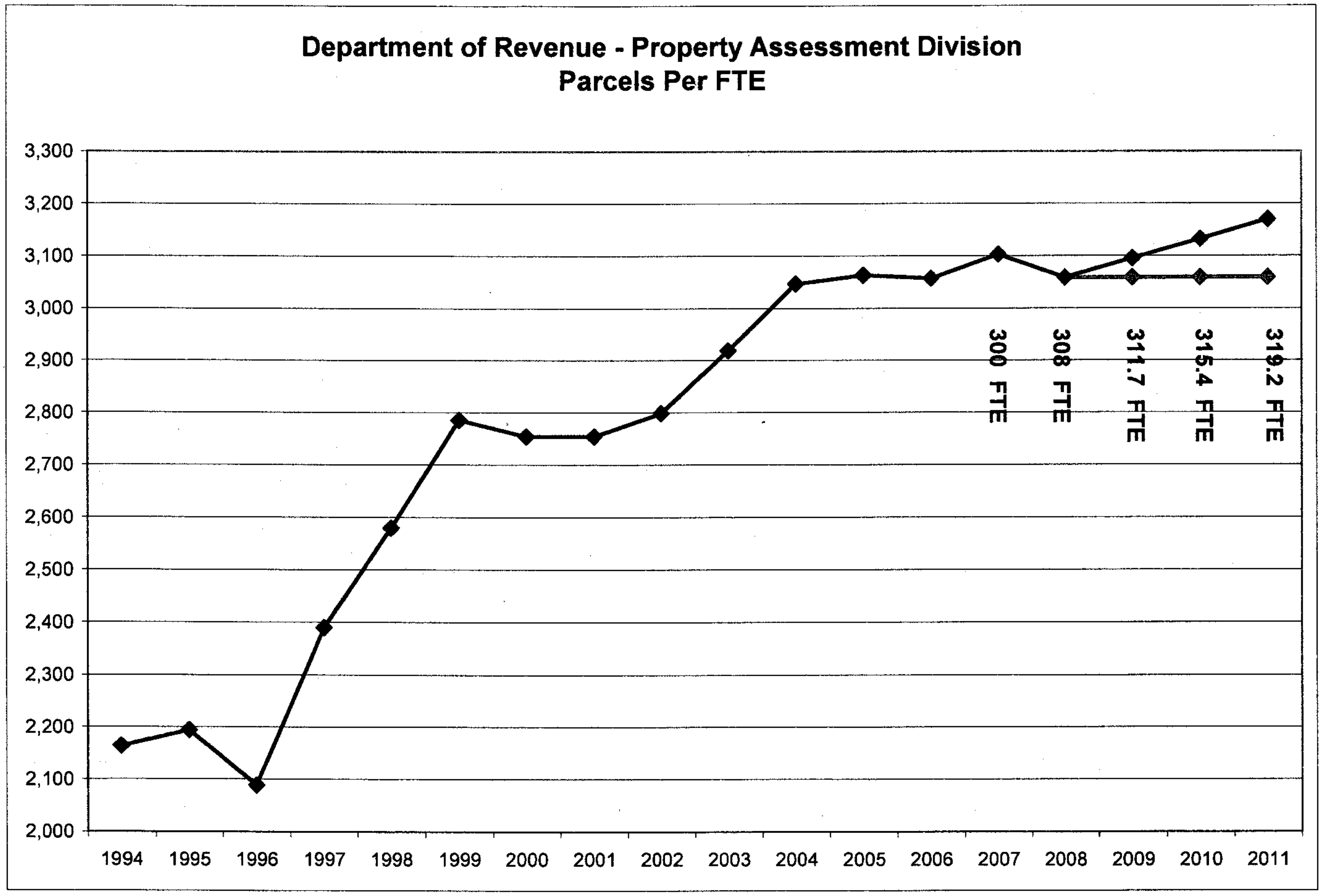
One Time Costs for additional personnel operating costs

$5,245 X 7 = $ 36,715 for FY 2010
$5,245 X 4 = $ 20,980 for FY 2011
$5,245 X 4 = $ 20,980 for FY 2012
$5,245 X 4 = $ 20,980 for FY 2013

Annual Costs:
$7,696 X 7 = $ 53,872 for FY2010

$7,696 X 11 = $ 84,656 for FY 2011
$7,696 X 15 = $ 115,440 for FY 2012
$7,696 X 19 = $ 146,224 for FY 2013

Operating Costs
FY 2010 - $ 90,587
FY 2011 - $105,636
FY 2012 - $136,420
FY 2013 - $167,204



Reappraisal Field Reviews
The compression of a growing workload into a shorter period of time will have an impact on staffing requirements. Our current appraisal staff is required to make field reviews of all improved properties (residential, commercial, agricultural/forest) once during the current reappraisal cycle (6 years). This would then require that 20% of the total improved properties be reviewed each year. However, in going to a 2-year reappraisal cycle, the requirement would increase to completing 50% per year – an increase in this workload requirement for each year of the cycle. During the first tax year of a reappraisal,

no field reviews are completed as the January thru June timeframe is spent completing final determinations of value, and the July through December timeframe is spent completing the appeal process. Therefore the reappraisal field reviews would begin January 1, 2010 (second half FY2010) under this proposal.

Expanding this workload requirement would result in a workload increase as follows:

FY2010 (2nd Half) Personal Services

6-year - 495,686 improved parcels X 20% = 99,137 parcels annually
99,137 parcels X 30 minutes per parcel = 2,974,110 minutes of work
2,974,110 minutes ÷ 60 minutes/hour = 49,569 hours of work annually

2-year - 495,686 improved parcels X 50% = 247,843 parcels annually
247,843 X 30 minutes per parcel = 7,435,290 minutes of work
7,435,290 minutes ÷ 60 minutes/hour = 123,921 hours of work annually

The increase in workload would require an increase in staffing to complete the work. Therefore, (2-year annual workload) – (6-year annual workload) = increase in workload

74,352 hours of increased work ÷ 1760 effective work hours per FTE = 42.2 new FTE

42.2 FTE X $34,560 / FTE = $1,458,432, plus benefits @ 17% =	$ 1,706,365
plus health insurance 42 FTE X $7,512 / FTE =	$ 315,504
	$ 2,021,381
Funding is needed only for the second half of FY2010 for these FTE	
$2,021,381 X .50 (6 months) =	$ 1,010,690

FY2011 Personal Services

6-year - 501,634 X 1.012 improved parcels X 20% = 101,531 parcels annually
101,531 parcels X 30 minutes per parcel = 3,045,930 minutes of work
3,045,930 minutes ÷ 60 minutes/hour = 50,766 hours of work annually

2-year - 501,634 X 1.012 improved parcels X 50% = 253,827 parcels annually
253,827 parcels X 30 minutes per parcel = 7,614,810 minutes of work
7,614,810 minutes ÷ 60 minutes/hour = 126,914 hours of work annually

The increase in workload would require an increase in staffing to complete the work. Therefore, (2-year annual workload) – (6-year annual workload) = increase in workload

76,148 hours of increased work ÷ 1760 effective work hours per FTE = 43.3 new FTE

43.3 FTE X $34,560 / FTE = $1,496,448, plus benefits @ 17% =	$ 1,750,844
plus health insurance 43 FTE X $7,512 / FTE =	$ 323,016
	$ 2,073,860

FY2012 Personal Services

6-year - 507,654 X 1.012 improved parcels X 20% = 102,749 parcels annually
102,749 parcels X 30 minutes per parcel = 3,082,470 minutes of work
3,082,470 minutes ÷ 60 minutes/hour = 51,375 hours of work annually

2-year - 507,654 X 1.012 improved parcels X 50% = 256,873 parcels annually
256,873 parcels X 30 minutes per parcel = 7,706,190 minutes of work
7,706,190 minutes ÷ 60 minutes/hour = 128,437 hours of work annually

The increase in workload would require an increase in staffing to complete the work. Therefore, (1-year annual workload) – (6-year annual workload) = increase in workload

77,062 hours of increased work ÷ 1760 effective work hours per FTE = 43.8 new FTE

43.8 FTE X $34,560 / FTE = $1,513,728, plus benefits @ 17% =	$ 1,771,062
plus health insurance 44 FTE X $7,512 / FTE =	$ 330,528
	$ 2,101,590

FY2013 Personal Services

6-year - 513,746 X 1.012 improved parcels X 20% = 103,982 parcels annually
103,982 parcels X 30 minutes per parcel = 3,119,460 minutes of work
3,119,460 minutes ÷ 60 minutes/hour = 51,991 hours of work annually

2-year - 513,746 X 1.012 improved parcels X 50% = 259,956 parcels annually
259,956 parcels X 30 minutes per parcel = 7,798,680 minutes of work
7,798,680 minutes ÷ 60 minutes/hour = 129,978 hours of work annually

The increase in workload would require and increase in staffing to complete the work. Therefore, (4-year annual workload) – (6-year annual workload) = increase in workload

77,987 hours of increased work ÷ 1760 effective work hours per FTE = 44.3 new FTE

44.3 FTE X $34,560	= $ 1,531,008	plus benefits @ 17%	= $ 1,791,279
plus health insurance	44 FTE X $7,512		= $ 330,528
			$ 2,121,807

Personal Services
FY2010 – $ 1,010,690
FY2011 – $ 2,073,860
FY2012 – $ 2,101,590
FY2013 – $ 2,121,807

Implement a Property Self Reporting Process

This request involves the use of a property self-reporting process. Self-reporting of property changes is not a new concept - it was successfully used in two pilot counties (Hill County & Carbon County) in the 2000 tax year. The citizens of Montana will benefit from self-reporting in a number of ways. Self-reporting will improve the accuracy of information gathered by the division. This improved accuracy will result in a reduced number of taxpayers who feel compelled to file property tax appeals on their property value. Second, it will provide assurance to other citizens that property has been accurately identified and is on the tax rolls correctly.

A significant amount of time is spent attempting to identify specific property characteristics that are pertinent to the valuation of each property. Examples of those characteristics include grade, quality of construction, style of construction, number of bedrooms, number of bathrooms, type of heat, basement area and finish, and other exterior features such as exterior walls, roof type and material, etc. Unfortunately, with the number of two wage-earner families or trespass/ingress difficulties, department staff are often times not able to gather information about the inside of structures, and sometimes the exterior of structures.

The concept of this proposal is two-fold and involves distributing pre-populated self-reporting forms to property owners. First, it is designed to help the department pinpoint property locations where new construction or remodeling has occurred, significantly reducing the time spent discovering new construction and remodeling that occurs under current practices - no building permits, etc. The valuation of smaller newly constructed items such as decks, patios, or porches could be accomplished through the self-reporting form and would not necessarily require an on-site inspection to value the property. Large new construction or remodeling projects would still require an on-site inspection by the appraiser, but the staff time spent identifying such projects would be significantly reduced. Second, it is designed to gather information about the internal construction of the structure. Again, that is important since staff is only able to make direct contact with property owners approximately 30% of the time. Having all the building characteristic information correct is important if the department wants the highest quality reappraisal. With limited resources, self reporting is one of the tools the department needs to employ to help ensure that occurs. Finally, self-reporting is a process that engages citizens cooperatively in the tax system and expands knowledge and understanding among the public as to how property tax valuation occurs.

An ongoing and effective taxpayer information and education campaign would be advisable to encourage taxpayers to use the self-reporting forms. In addition, the department proposes to provide an option of taxpayers to return the information electronically through a secure online system similar or based on the department's online services for state taxes. For the maximum reappraisal benefit under a 2-year reappraisal cycle, the distribution of the self-reporting forms should be in FY2010 for 50% of the properties in Montana and the remaining 50% in FY2011. Done correctly with the involvement and participation of property owners, it will help taxpayers develop a better sense of ownership in the property tax system.

The estimated cost of mailing self-reporting forms to 50% of all residential (including mobile and manufacture homes) and agricultural property owners each year is as follows:

FY 2010 - $252,800 ($ .75 /self-reporting form X 247,843 forms mailed + $ .45 /form X 148,740 returned forms)

FY2011 - $258,903 ($ .75 /self-reporting form X 253,827 forms mailed + $ .45 /form X 152,296 returned forms)

For the following reappraisal cycle that falls within the biennium

FY2012 - $262,011 ($ .75 /self-reporting form X 256,873 forms mailed + $ .45 /form X 154,124 returned forms)

FY 2013 - $265,155 ($ .75 /self-reporting form X 259,956 forms mailed + $ .45 /form X 155,974 returned forms).

That includes a cover letter ($ .05), self-reporting forms ($ .32), postage ($ .38), and a postage paid return envelope ($ .45). The estimated cost of the self-reporting project assumes that, even with the compliance statutory language as proposed in the following paragraph, 60% of the taxpayers will choose to respond via return mail, 10% will use the online system, and 30% will not respond.

An educational/informational taxpayer program is estimated at $46,000 for FY 2010 and FY 2012. Additional expenses for an advertising campaign include $4,047 for FY 2010 and FY2012 and $60,000 in FY 2011 and FY2013.

An integral part of the success of this option would be the inclusion of statutory language similar to the approach identified in 15-7-139 (7). That is an appeal board would not adjust the estimated value of the real or personal property unless the property owner or the property owner's agent accurately completed and returned the self- reporting form to the department.

Operating Costs
FY2010 = $ 302,847
FY2011 = $ 322,950
FY2012 = $ 312,058
FY2013 = $ 325,155

Additional Travel/Vehicles Operating Costs

With a 2-year cycle (two years for field review), staff will be required to travel more extensively within the region to complete additional reappraisal field reviews. The travel requirement would increase over the current rate of travel for the 6-year cycle. (See reappraisal field review)

1,101,577 annual miles X 2.5 X $0.125 = $344,243 per year

FY2010 = $ 172,121
FY2011 = $ 344,243

FY2012 = $ 344,243
FY2013 = $ 344,243

Additional Staff will require additional vehicles. Current ratio of appraisers to vehicle is 1.3 staff per vehicle. Vehicles are leased from DOT at $11.264 (sedan)/day plus $0.125 per mile, based on current vehicle use and staff average mileage 14,639 mile/appraiser X $0.70/mile = $10,250 X # new staff ÷ 1.3 staff per vehicle.

FY2010 = $ 10,250 X 42.2 New Staff ÷ 1.3 staff per vehicle = $ 332,731 X .5 (one half year)
= $ 166,365

FY2011 = $ 10,250 X 43.3 New Staff ÷ 1.3 staff per vehicle = $ 341,404

FY2012 = $ 10,250 X 43.8 New Staff ÷ 1.3 staff per vehicle = $ 345,346

FY2013 = $ 10,250 X 44.3 New Staff ÷ 1.3 staff per vehicle = $ 349,289

Operating Costs

FY2010 = $ 338,486
FY2011 = $ 685,647
FY2012 = $ 689,589
FY2013 = $ 693,532

One Time Costs for additional personnel

Cameras	$ 130	
GPS	$ 215	
Cubicle work area, counter, bookcase, walls, 2 drawer cabinet	$2,500	
PC & Printer	$1,600	
Chair	$ 350	
Calculator	$ 100	
Computer/Phone (cost of duplex jack)	$ 350	
Total one time costs	$5,245	X 42 = $220,290 X .5 (one half year) = $110,145(FY2010)
		X 22 = $115,390 (FY2011)
		X 1 = $ 5,245 (FY2013)

Annual Costs:

PC Replacement (1/4 replacement)	$ 400
Network costs	$ 960
Supplies	$ 200
Phone (Basic rate $336)+(Long distance $100)	$ 436
Rent Non-DOA Building (250 sq. ft. x $15.00)	$5,500

Training	<u>$ 200</u>
Total annual costs	$7,696 X 42.2 = $324,771 X .5 (one half year)
	= $162,386 (FY2010)
	X 43.3 = $333,237 (FY2011)
	X 43.8 = $337,085 (FY2012)
	X 44.3 = $340,933 (FY2013)

<u>Operating Costs</u>
FY2010 = $ 272,531
FY2011 = $ 448,627
FY2012 = $ 337,085
FY2013 = $ 346,178

REAPPRAISAL INTERIM YEAR - TIME TREND ADJUSTMENTS

The national standard for reappraisal cycle property reviews is at least one on-site property visit each cycle. Interim year valuation adjustments are also accepted standards. This approach contemplates a reappraisal cycle duration as determined by the Montana legislature, with a base year valuation date, and interim year valuation adjustments of residential property during the cycle to help eliminate "sticker shock", to provide a mechanism to also acknowledge "downturns" in the market, and to help provide equalization.

The Department would contract with an outside expert to perform sales/assessment ratio studies and time trend analyses by market area and recommend interim year residential property valuation adjustments for each market area.

FY2010 (last half) – Operating = $75,000
FY2011 (last half) – Operating = $75,000

Under the current 6-year reappraisal of all real property and personal property homes are only printed in the first year of the reappraisal cycle. Instead of printing all assessments once every 6 years, they would be printed every 2 years. (Assessments mailed by 6/30/12). Making annual valuation adjustments to residential property as a result of sales/assessment ratio studies – time trending analyses means assessment notices will also have to be mailed in Fiscal Years 2010, and 2011. The costs of that effort are:

<u>FY2010 (last half) – Operating</u>

Printing of Assessments	$0.32 X 454,795 = $145,535
Mailing Assessments	$0.38 X 454,795 = <u>$172,820</u>
Total	**$318,355**

FY2011 (last half) – Operating

Printing of Assessments	$0.32 X 454,795 =	$145,535
Mailing Assessments	$0.38 X 454,795 =	$172,820
Total		**$318,355**

TWO YEAR REAPPRAISAL CYCLE COSTS OVER CURRENT BUDGET
(With Oblique Imagery)
Includes the New Self Reporting Process

Note: Two Year Cycle may cause problems in determining timely mitigation strategies by the Legislature

PERSONAL SERVICES

FY2010 - $ 1,366,840
FY2011 - $ 2,853,146
FY2012 - $ 2,813,588
FY2013 - $ 3,236,724

OPERATIONAL EXPENSES

FY2010 - $ 6,829,006
FY2011 - $ 7,842,361
FY2012 - $ 7,639,888
FY2013 - $ 7,418,215

TOTAL EXPENSES (OVER CURRENT BUDGET LEVEL)

FY2010 - $ 8,195,846
FY2011 - $10,695,507
FY2012 - $10,453,476
FY2013 - $10,654,939

ADDITIONAL EXPENSES FOR INTERIM YEAR VALUATION ADJUSTMENTS

FY2010 - $ 393,355
FY2012 - $ 393,355

SUMMARY – OPTION 2 – 2-YEAR REAPPRAISAL CYCLE

- 2- Year Reappraisal Cycle
- Cycle begins 1/1/2010
- Cycle ends 12/31/2011
- Base year for the reappraisal cycle = 1/1/2011
- Reappraisal values effective for Tax Year 2012

This option includes:

- The annual purchase and use of oblique imagery.
- A contract to determine market model time trend adjustments.
- A contract to perform a capitalization rate study for commercial property valuation.
- Requiring submission of Income and Expense Information from taxpayers.
- Conducting a housing-market analysis in FY2012.
- Mailing of agricultural and forest land ownership and use maps to taxpayers in FY2012.
- Using a self-reporting process.
- Meetings with an Agricultural Land Valuation Advisory Committee in FY2011 and FY2013.
- Acquisition of new aerial photography for agricultural and forest land reappraisal – to detect changes in use in FY2010, FY2011, FY2012 and FY2013.
- Meetings with a forest land valuation advisory committee in FY2011 and FY2013.
- A contract to update forest land information in FY2011 and FY2013.
- A contract to update forest land income information in FY2011 and FY2013.
- DNRC to update forest land expenses in FY2011 and FY2013.
- More extensive field travel by staff to complete reappraisal field reviews in FY2010, FY2011, FY2012 and FY2013.
- Additional vehicles for additional staff in FY2010, FY2011, FY2012, FY2013.
- Additional personnel costs (one-time and annual) for new staff in FY2010, FY2011, FY2012 and FY2013.
- Taxpayer education expenses in FY2010, FY2011, FY2012 and FY2013.
- Assessment notices to all Class 3, Class 4 and Class 10 property owners mailed in FY2012 (1st Half).

Number of Additional FTE (above current level) required for this option:

- 7 appraisers for FY2010 to pick up new construction and use changes, plus
- 4 appraisers for FY2011 to pick up new construction and use changes, plus
- 4 appraisers for FY2012 to pick up new construction and use changes, plus
- 4 appraisers for FY2013 to pick up new construction and use changes, plus 42.2 appraisers to complete reappraisal field reviews in FY2010; 43.3 appraisers to complete reappraisal field reviews in FY2011; and 43.8

appraisers to complete reappraisal reviews in FY2012, and 44.3 appraisers to complete reappraisal reviews in FY2013

- 1 half-time Management Analyst to complete new cost tables in FY2011
- 1 half-time Management Analyst to complete new cost tables in FY2013

Reappraisal Interim Year – Time Trend Adjustments:

- A contract to perform sale/assessment ratio studies – time trend analyses and recommend interim year valuation adjustments for residential properties
- Annual assessment notices for residential property in FY2010 and FY2012

2-YEAR REAPPRAISAL CYCLE

COSTS OVER CURRENT LEVEL THAT WOULD BE ASSOCIATED WITH A 2-YEAR CYCLE

Assumptions

General

- The new cycle would start 1/1/2010

- Budget authority would be provided by the 2009 Legislature
  - Funding would be available beginning 7/1/2009 (FY2010)

- The new 2-year cycle would end on 12/31/2011 and 12/31/2013

- New reappraisal values would be effective for tax year 2012 and 2014

- Under the current 6-year reappraisal all real property and personal property mobile homes are only printed in the first year of the reappraisal. In subsequent years only changes are printed and mailed. Instead of printing all assessments once every 6 years, they would be printed once every 2 years. (Assessments mailed by 6/30/2012). The change in length of the cycle will require the Department to mail out assessments to all property owners more often than done currently. This will result in a higher cost, but under a new 2-year cycle the increased costs would not be realized until FY2012.

FY2012 – Operating Cost

Printing of Assessments	\$0.32 X 634,781 =	\$203,130
Mailing Assessments	\$0.38 X 634,781 =	\$241,216
Total		**\$444,346**

- A mitigation strategy would be implemented by the legislature in order to maintain taxable value neutrality for each reappraisal cycle – this would cause no dramatic increase in appeals or requests for informal property reviews.

- Taxpayer Education efforts would continue. Each reappraisal cycle the Department undertakes a program to educate the public about the cyclic reappraisal of Classes 3, 4 and 10 properties. The public education program includes advertisements in newspapers and public service announcements (PSA) on radio and television. The estimated FY2012 cost would be \$106,000.

FY2012 Operating Cost

\$ 106,000

- A 1.2% increase in parcels per year

Agricultural/Forest Land Reappraisal

- National Agriculture Imagery Program (NAIP) – a new flight of aerial photography would be required in order to maintain agricultural and forest land use changes current. The Aerial Photography Field Office (APFO) is the primary source of aerial imagery for the United States Department of Agriculture. Among the other programs administered by the APFO is the National Agriculture Imagery Program (NAIP). NAIP acquires imagery during the agricultural growing seasons in the continental U.S. A primary goal of the NAIP program is to enable availability of digital orthophotography within a year of acquisition.

  To accomplish the goals of a 2-year appraisal cycle, NAIP imagery would need to be acquired. After acquisition, the latest NAIP imagery is compared to the previous year's imagery. Coupled with other available information, the comparison process will allow the Department to identify changes in use associated with agricultural lands. The cost of acquiring statewide NAIP imagery is estimated at $ 30,000 each year of the cycle. Typically the cost of the latest imagery is shared between various state agencies. As part of the cost-share approach to acquiring NAIP imagery, the DOR cost would be $ 30,000 each year of the cycle.

Operating Cost	
FY2010	**$30,000**
FY2011	**$30,000**
FY2012	**$30,000**
FY2013	**$30,000**

- Farm Services Agency (FSA) – annual updates of Certified Land Unit (CLU) line work delineating boundaries of farmland from grazing land would be required.

- Natural Resources Conservation Service (NRCS) soil survey updates would be required annually. Any updated soil survey information is essential in maintaining the integrity of the system used in valuing agricultural land.

- Energy costs for irrigated land would be collected every two years if the 5 agricultural land use type system continues.

- Continuation of using the 5 agricultural land use type system for valuing agricultural land (grazing, non-irrigated summer fallow farm land, non-irrigated continuously cropped farm land, non-irrigated continuously cropped hay land, and tillable irrigated farm land).

- The influence of the current Farm Bill on farm land income would be determined.

- Mailing agricultural land and forest land ownership and use maps. The Department will mail to each agricultural and/or forest land owner pertinent appraisal information. The information will include maps of the individuals' properties, instructions and other information to assist the individual in determining the accuracy of our reappraisal efforts.

Create two sets of township maps for review purposes; 1 set for manual review/corrections and the 2nd corrected set for county office use = $40,000 in FY2011. This cost would be incurred in the last year of the 2-year cycle.

FY2012 (1st Half) Operating Cost
$40,000

The department would mail maps to each individual landowner for their review and correction prior to the end of the cycle. Along with the cost of producing the maps and mailing them to the individuals, a public relations campaign would be undertaken to notify and explain the map delivery. The cost estimates for the agricultural/forest land map mailings are:

FY2012 (2nd Half) Operating Cost

Create maps	-	$34,585
Mail maps	-	$19,250
Public information	-	$39,355
		$93,190

These costs would be incurred in the last year of the 2-year cycle.

- Meetings of the Governor's Agricultural Land Valuation Advisory Committee will continue. Each reappraisal cycle the Governor appoints individuals knowledgeable about farm practices and farm economics. The Committee reviews information relevant to the determination of value of agricultural lands. If the Committee so chooses, they can make recommendations to the Department for changes in the practices of determining the value of agricultural land.

  The Committee would need to meet prior to the completion of the reappraisal of agricultural lands. For a nine (9) member Committee, the estimated cost for each meeting is approximately $4,600 in FY2011. This cost would be incurred during the last year of the 2-year cycle.

FY2011 Operating Cost
4 meetings @ $4,600 - **$18,400**

FY2013 Operating Cost
4 meetings @ $4,600 - **$18,400**

- Meetings of the Governor's Forest Land Valuation Advisory Committee will take place. Each reappraisal cycle the Governor appoints individuals knowledgeable about forest practices and forest economics. The Committee reviews information relevant to the determination of value of forest lands. If the Committee should choose they can make recommendations to the Department for changes in the practices of determining the value of forest land. The Committee would need to meet prior to the completion of the reappraisal of forest lands. For a nine (9) member Committee, the estimated cost for each meeting is approximately $4,600 in FY2011. This cost information is from HB72 in the 2005 Legislative Session and is an FY08 estimate. This cost would be incurred during the last year of the 2-year cycle.

FY2011 Operating Cost
4 meetings @ $4,600 - **$18,400**

FY2013 Operating Cost
4 meetings @ $4,600 - **$18,400**

- The department will be required to contract with someone to create or update the forest land information. In prior cycles, that has been the University of Montana/School of Forestry and Conservation. Estimated costs for contracted services are approximately $200,000 based on recent contract information. This cost would be anticipated to occur during last year of the 2-year cycle

FY2011 Operating Cost
$200,000

FY2013 Operating Cost
$200,000

- Forest land income would continue to be provided by the University of Montana, retired professor Dr. David Jackson, or someone of equal stature, once every two years. Costs associated with this contract would be anticipated to occur during FY2011 and FY2013 of the 2-year cycles.

FY2011(1st Half) Operating Cost
$10,000

FY2013 (1st Half) Operating Cost
$10,000

- Forest land expenses would continue to be provided by the Department of Natural Resources and Conservation (DNRC). The cost of acquiring and compiling this information would be anticipated to occur the last year of the 2-year cycle.

Residential/Commercial Property

- The DOR would use current technology to help accomplish the reappraisal of residential and commercial properties every 2 years.
  - GPS – Global Positioning System
  - Self-reporting forms
  - Oblique Imagery

Use oblique imagery in select areas of Montana in conjunction with other state agencies and local governments.

In order to accomplish its Constitutional charge to provide an equitable property tax system, the Department of Revenue, Property Assessment Division needs access to the most current technology available. That's especially true in light of its inability to secure budget authority to hire additional appraisal staff. Possibly the most promising technology is oblique imagery coupled with change resolution software. It's currently used in 48 states – Montana is only one of two states that have not yet availed itself of oblique imagery technology. The reported success of its application in other states clearly suggests it has great application for Montana. In addition, the "*Standard on Property Tax Policy* of the International Association of Assessing Officers (IAAO, 2004) and section 4.7 of its *Standard on Mass Appraisal of Real Property* (2002) calls for annual reassessments with comprehensive reappraisals involving anon-site inspection of every property at least every six years unless other change-detecting technologies, such as oblique aerial imagery are used.

Oblique aerial imagery is the technical term used to describe an aerial photograph that is taken at an angle. That allows staff the ability to view features, such as a house, building, industrial facility from multiple angles and directions. And while staff will be able to determine number of stories, structural height, square footage etc., the resolution will not result in privacy invasion issues. In fact, there is currently and will be much greater resolution and 3-D ability that already exists with Google Earth and Microsoft Visual Earth software used by millions to locate and view property every day than there will be with this application. In fact that 3-D, street level imagery view currently exists for property in Billings, Montana. With respect to any potential privacy concerns, the imagery will actually help resolve trespass concerns that taxpayers currently have. This type of imagery will also provide the capability to quickly determine acreages associated with land use change or natural disasters, such as forest fires. Use of oblique imagery has application for many other areas of state and local government. In addition to property appraisals and assessments, examples include 911 Public Safety, Law Enforcement, Homeland Security, GIS applications, Fire Departments, Planning, and Transportation.

The department would propose to contract with a firm to be determined via the RFP process for the annual purchase of orthogonal and oblique imagery for all of or select areas of the following high growth counties: Cascade, Flathead, Gallatin, Jefferson, Lake, Lewis & Clark, Madison, Missoula, Park, Ravalli, Silver Bow, and Yellowstone Counties. The intent would be to use "Change Analysis" software to detect and measure, as needed, changes in buildings/structures and land uses. Based on a flight conducted in Yellowstone County, it's clear that this is a key technology that will allow the Division to locate and determine changes in improvements in lieu of going on-site or canvassing the county. For significant differences or changes, it will allow the Division to focus its limited resources on specific areas or structures. Also of great importance is that it will allow the Division to reduce or discontinue additional staffing requests from the Legislature for the foreseeable future.

The Property Assessment Division proposes two options for consideration. Option 1 contemplates total private land coverage of the following counties - Cascade, Flathead, Gallatin, Jefferson, Lake, Lewis & Clark, Madison, Missoula, Park, Ravalli, Silver Bow, and Yellowstone. That type of coverage would allow staff to ensure improvements and land use changes in remote locations, gated communities, and in areas that are most subject to trespass issues are valued and assessed. Those are the areas that are typically most problematic for staff. This option contemplates one flight every three years. Based on information received from firms that provide oblique aerial imagery, the costs for this option are estimated at $5,401,200.

Option 2 contemplates select private land coverage in the same counties - Cascade, Flathead, Gallatin, Jefferson, Lake, Lewis & Clark, Madison, Missoula, Park, Ravalli, Silver Bow, and Yellowstone. The focus in this coverage would be the more urban areas where the highest growth is occurring. This option contemplates one flight every three years. Based on information received from firms that provide oblique aerial imagery, the costs for this option are estimated at $ 3,006,500.

Option 1 is recommended.

A key element in this proposal is the involvement of other state agencies and local governments. Since the Department of Administration's Geographic Information Officer (GIO) is currently involved in securing those types of partnerships and funding for other types of imagery (i.e. NAIP), that individual might be a logical place for securing that type of involvement for oblique aerial imagery.

Oblique Aerial Imagery – Option 1

Estimated Costs by County –

Cascade County	2,234 square miles @ $350/square mile =	$ 781,900
Flathead County	1,267 square miles @ $350/square mile =	$ 443,450
Gallatin County	1,401 square miles@ $350/square mile =	$ 490,350
Jefferson County	727 square miles @ $350/square mile =	$ 254,450
Lake County	792 square miles@ $350/square mile =	$ 277,200
Lewis & Clark County	1,555 square miles @ $350/square mile =	$ 544,250
Madison County	1,710 square miles @ $350/square mile =	$ 598,500
Missoula County	1,189 square miles @ $350/square mile =	$ 416,150
Park County	1,261 square miles @ $350/square mile =	$ 441,350
Ravalli County	592 square miles @ $350/square mile =	$ 207,200
Silver Bow County	518 square miles @ $350/square mile =	$ 181,300
Yellowstone County	2,186 square miles @ $350/square mile =	$ 765,100
Total:	**15,432 square miles @ $350/square miles =**	**$ 5,401,200**

Oblique Aerial Imagery – Option 2

Estimated Costs by County –

Cascade County	222 square miles @ $350/square mile =	$ 77,700
Flathead County	592 square miles @ $350/square mile =	$ 207,200
Gallatin County	925 square miles@ $350/square mile =	$ 323,750
Jefferson County	962 square miles @ $350/square mile =	$ 336,700
Lake County	456 square miles@ $350/square mile =	$ 159,600
Lewis & Clark County	222 square miles @ $350/square mile =	$ 77,700
Madison County	1,628 square miles @ $350/square mile =	$ 569,800

Missoula County	925 square miles @ $350/square mile =	$ 323,750
Park County	1,224 square miles @ $350/square mile =	$ 428,400
Ravalli County	592 square miles @ $350/square mile =	$ 207,200
Silver Bow County	518 square miles @ $350/square mile =	$ 181,300
Yellowstone County	324 square miles @ $350/square mile =	$ 113,400
Total:	**8,590 square miles @ $350/square miles =**	**$3,006,500**

FY2010 - Operating
$ 5,401,200 (Option 1)
$ 3,006,500 (Option 2)

FY2011 - Operating
$ 5,401,200 (Option 1)
$ 3,006,500 (Option 2)

FY2012 - Operating
$ 5,401,200 (Option 1)
$ 3,006,500 (Option 2)

FY2013 - Operating
$ 5,401,200 (Option 1)
$ 3,006,500 (Option 2)

- The Department would contract with an expert for the determination of the time trend adjustments needed for market modeling.

FY2011 (2nd Half) - Operating
$60,000

FY2013 (2nd Half) - Operating
$60,000

- The historical process of verifying sales would continue. That is, for a 2-year reappraisal cycle, sales would be verified during the first year of the cycle, with active sales verifications being suspended for the second year. However, if it is determined for the proposed 2-year cycle that the sales for the first 6 months of the final year of the cycle should be verified and made a part of the market modeling process, there would be a cost increase over current level for accomplishing such analysis. This additional effort would be focused on the 7 largest counties in the state, based on the Department's current experience in verifying and analyzing the first 6 months of 2008 sales for the current reappraisal cycle. This additional work effort, if determined to be necessary for future reappraisal cycles would impact workload and staffing requirements for the first 6 months of FY2011 and FY2013. Those increased costs for FY2011 and FY2013 are calculated as follows:

FY2011 Personal Services

6,240 sales parcels X 1.5 hours = 9,360 hours of work
9,360 hours of increased work ÷ 1760 effective work hours per FTE = 5.3 new FTE

5.3 FTE (Appraisers) X	$34,560 = $ 183,168		plus benefits @ 17%	= $ 214,307
plus health Insurance	=	5 X $7,512		= $ 37,560
				$ 251,867

FY2011 (2nd Half) - Personal Services
$251,867

FY2013 (2nd Half) - Personal Services
$251,867

One Time Costs for additional personnel

Cameras	$ 130
GPS	$ 215
Cubicle work area, counter, bookcase, walls, 2 drawer cabinet	$3,500
PC & Printer	$1,600
Chair	$ 350
Calculator	$ 100
Computer/Phone (cost of duplex jack)	$ 350
Total one time costs	$6,245 X 6 = $ 37,470

Annual Costs:

PC Replacement (1/4 replacement)	$ 400
Network costs	$ 960
Supplies	$ 200
Phone (Basic rate $336)+(Long distance $100)	$ 436
Rent Non-DOA Building (250 sq. ft. x $15.00)	$3,750
Training	$ 200
Total annual costs	$5,946 X 6 = $ 35,676

FY2011 (2nd Half) – Operating
$ 73,146

FY2013 (2nd Half) – Operating
$ 73,146

- The Department of Revenue conducted housing market analyses for the current 6-year reappraisal cycle. That consisted of holding facilitated focus group meetings at 18 locations throughout Montana and contracting with experienced housing market professionals for additional analyses. Those analyses were quite productive, insightful and worthy of continued consideration for each reappraisal cycle. Additional budget authority to cover the facilitated meetings and the contract for service expenses are included. The meeting costs are estimated at $ 32,900 which includes (air travel to 10 select sites – 1 flight per 2 sites @ $1500 per meeting; facilitator @ $ 20,000; per diem @ $100/meeting; meeting refreshments @ $200/meeting). Based on our experience in 2008, contracting for out-side housing market analyses is estimated at $ 50,000.

FY2012 (1st Half) - Operating
$ 50,000

- The department would contract with an expert to perform a capitalization rate study for commercial property structure types. Those capitalization rate(s) would be used for the valuation of commercial properties.

FY2011 (2nd Half) - Operating
$ 75,000

FY2013 (2nd Half) - Operating
$ 75,000

- Require the submission of income & expense information on commercial properties. The Income Approach is the preferred approach for the valuation of commercial property. That approach involves identifying the gross income of a property, subtracting justified expenses to determine a net operating income and capitalizing that income into an estimate of value through use of a capitalization rate. An integral part of that approach is securing income and expense information. The Department annually requests income and expense information from commercial property owners. Even though that information is held confidential by the Department of Revenue, it is not currently required by law. As a result, historically the return rate has been low. If the Department is to provide a fair and equitable property tax system to the citizens of Montana, the Department should be allowed, similar to other taxing jurisdictions such as Calgary, Alberta, to require the submission of income and expense information. This option contemplates that requirement. This option would include statutory language similar to the approach identified in 15-7-139 (7). That is an appeal board would not adjust the estimated value of the real or personal property unless the property owner or the property owner's agent accurately completed and returned the income and expense reporting form to the department. Since the cost of creating and mailing income and expense forms is currently contained in the "base" of the Department's budget, no additional funding is required. As with the self reporting requirement, the department proposes to provide an option for taxpayers to return the information electronically through a secure online system similar or based on the department's online services for state taxes.

- Cost table will be updated. Under the current 6-year cycle, the cost tables are updated every 6 years, this would occur every 2 years with a shortened cycle. Update of cost tables includes collection of the cost to construct all structure types, analysis of the costs on a statewide basis, and the update of actual cost tables in ORION. The collection and compilation of information along with the table update requires additional staffing over a 6 month timeframe (January through June 2010) in FY2010 and FY 2012.

FY2010 – Personal Services

Temporary Staff (1) 1040 hrs @ $19.73/hour = **$20,520** (Based on the level of pay a temporary Management Analyst) (1st 2-year reappraisal Cycle)

FY2012 – Personal Services

Temporary Staff (1) 1040 hrs @ $19.73/hour = **$20,520** (Based on the level of pay a temporary Management Analyst) (2nd 2-year reappraisal Cycle)

The implementation of a 2-year reappraisal cycle, given the stated assumptions, would result in annual cost increases to the DOR in order to enable completion of the reappraisal in 2 years rather than in the 6 years as provided for in current law. Those additional costs for the upcoming FY2010/FY2011 Biennium and FY2012FY2013 Biennium are discussed and shown below.

Provide Additional Staff to the Property Assessment Division

Identifying and valuing new construction and land use changes is linked directly to parcel growth in Montana. During the 2007 legislative session, the Department requested additional staff - 24 FTE in FY 2008 and an additional 8.00 FTE in FY 2009. The proposal addressed the fact that staff had been reduced by 17% in recent years while workload has increased by over 24%. In 1994, the workload level was 2,163 parcels per FTE. As of 2007, the workload had climbed to 3,102 parcels per FTE. The 2007 legislature provided 10 additional FTE, of which 8 FTE were devoted to appraisal activities, which reduced the workload to 3,058 parcels per FTE in 2008. Though growth in Montana continues, the legislature has spoken. It determined that the 2008 workload level of the Property Assessment Division was acceptable. With this request we are honoring that decision. The Division is not requesting additional staff to reduce the 3,058 parcels per FTE level. Rather it is requesting additional staff to maintain that level – nothing more. Before 2005, the rate of growth was 2.5%, while between 2006 and 2007 it slowed to 1.5%. The parcel growth rate from 2007 to 2008 slowed even further to 1.2% - much lower than prior years. For this option, the current growth rate of 1.2% was used to extrapolate parcel counts in 2009, 2010, 2012 and 2013. As the following line graph displays, in order to maintain the 2008 workload level taking into consideration the increased parcels that will occur through fiscal year 2013, the Division needs 19 additional FTE (7 FTE in FY2010, 4 FTE in FY2011, 4 FTE in FY2012 and 4 FTE in FY2013).

Although this proposal is reflecting the need of completing a 2-year reappraisal cycle, the need for the increase in staff to maintain a 3,053 parcels per FTE continues through the next biennium.

FY2010 7 FTE @ $34,560 = $241,920 plus 17% benefits		=	$283,046
Plus health insurance	7 FTE X $7512 =		<u>$ 52,584</u>
			$335,630
FY2011 11 FTE @ $34,560 = $380,160 plus 17% benefits		=	$444,787
Plus health insurance	11 FTE X $7512 =		<u>$ 82,632</u>
			$527,419
FY2012 15 FTE @ $34,560 = $518,400 plus 17% benefits		=	$606,528
Plus health insurance	15 FTE X $7512 =		<u>$112,680</u>
			$719,208
FY2013 19 FTE X $34,560= $ 656,640 plus 17% benefits		=	$768,269
Plus health insurance	19 FTE X $7,512 =		<u>$142,728</u>
			$910,997

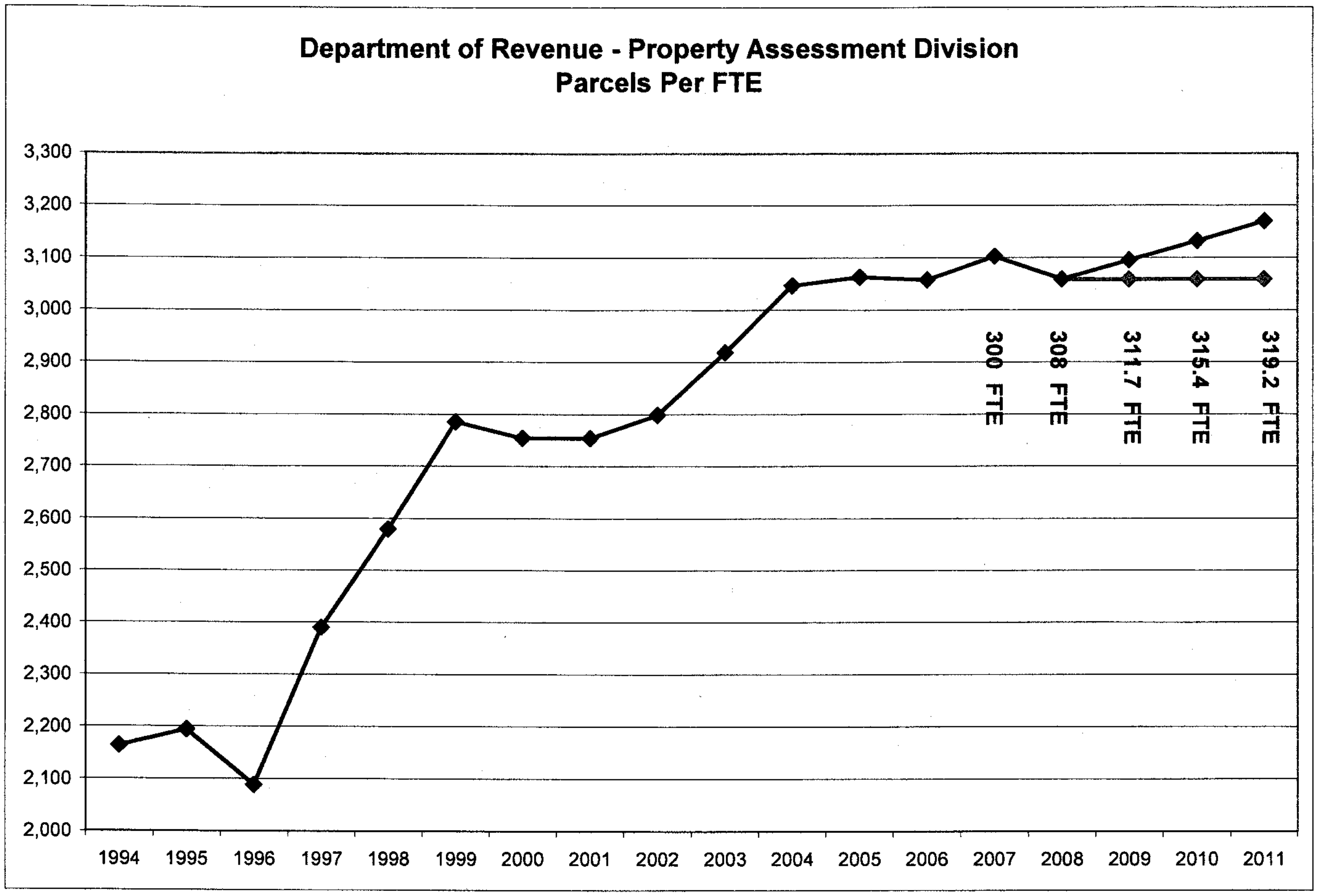
<u>Personal Services</u>
FY2010 = $ 335,630
FY2011 = $ 527,419
FY2012 = $ 719,208
FY2013 = $ 910,997

<u>One Time Costs for additional personnel operating costs</u>

$5,245 X 7 = $ 36,715 for FY 2010
$5,245 X 4 = $ 20,980 for FY 2011
$5,245 X 4 = $ 20,980 for FY 2012
$5,245 X 4 = $ 20,980 for FY 2013

<u>Annual Costs:</u>
$7,696 X 7 = $ 53,872 for FY2010
$7,696 X 11 = $ 84,656 for FY 2011
$7,696 X 15 = $ 115,440 for FY 2012
$7,696 X 19 = $ 146,224 for FY 2013

<u>Operating Costs</u>
FY 2010 - $ 90,587
FY 2011 - $105,636
FY 2012 - $136,420
FY 2013 - $167,204



Reappraisal Field Reviews

The compression of a growing workload into a shorter period of time will have an impact on staffing requirements. Our current appraisal staff is required to make field reviews of all improved properties (residential, commercial, agricultural/forest) once during the current reappraisal cycle (6 years). This would then require that 20% of the total improved properties be reviewed each year. However, in going to a 2-year reappraisal cycle, the requirement would increase to completing 50% per year – an increase in this workload requirement for each year of the cycle. During the first tax year of a reappraisal, no field reviews are completed as the January thru June timeframe is spent completing final determinations of value, and the July through December timeframe is spent completing the appeal process. Therefore the reappraisal field reviews would begin January 1, 2010 (second half FY2010) under this proposal. The Property Assessment Division estimates that it will take two years for oblique imagery to impact reappraisal field reviews. In FY2012 and FY2013, the Department estimates due to the efficiency of oblique imagery, the field reviews could be accomplished with existing staff.

Expanding this workload requirement would result in a workload increase as follows:

FY2010 (2nd Half) Personal Services

6-year - 495,686 improved parcels X 20% = 99,137 parcels annually
99,137 parcels X 30 minutes per parcel = 2,974,110 minutes of work
2,974,110 minutes ÷ 60 minutes/hour = 49,569 hours of work annually

2-year - 495,686 improved parcels X 50% = 247,843 parcels annually
247,843 X 30 minutes per parcel = 7,435,290 minutes of work
7,435,290 minutes ÷ 60 minutes/hour = 123,921 hours of work annually

The increase in workload would require an increase in staffing to complete the work. Therefore, (2-year annual workload) – (6-year annual workload) = increase in workload

74,352 hours of increased work ÷ 1760 effective work hours per FTE = 42.2 new FTE

42.2 FTE X $34,560 / FTE = $1,458,432, plus benefits @ 17% =	$ 1,706,365
plus health insurance 42 FTE X $7,512 / FTE =	$ 315,504
	$ 2,021,381

Funding is needed only for the second half of FY2010 for these FTE
$2,021,381 X .50 (6 months) = $ 1,010,690

FY2011 Personal Services

6-year - 501,634 X 1.012 improved parcels X 20% = 101,531 parcels annually
101,531 parcels X 30 minutes per parcel = 3,045,930 minutes of work
3,045,930 minutes ÷ 60 minutes/hour = 50,766 hours of work annually

2-year - 501,634 X 1.012 improved parcels X 50% = 253,827 parcels annually
253,827 parcels X 30 minutes per parcel = 7,614,810 minutes of work
7,614,810 minutes ÷ 60 minutes/hour = 126,914 hours of work annually

The increase in workload would require an increase in staffing to complete the work. Therefore, (2-year annual workload) – (6-year annual workload) = increase in workload

76,148 hours of increased work ÷ 1760 effective work hours per FTE = 43.3 new FTE

43.3 FTE X $34,560 / FTE = $1,496,448, plus benefits @ 17% =	$ 1,750,844
plus health insurance 43 FTE X $7,512 / FTE =	$ 323,016
	$ 2,073,860

FY2012 and FY2013 Personal Services – no additional staff required

FY2012 - $ 2,073,860
FY2013 - $ 2,073,860

Personal Services
FY2010 – $ 1,010,690
FY2011 – $ 2,073,860
FY2012 – $ 2,073,860
FY2013 – $ 2,073,860

Implement a Property Self Reporting Process

This request involves the use of a property self-reporting process. Self-reporting of property changes is not a new concept - it was successfully used in two pilot counties (Hill County & Carbon County) in the 2000 tax year. The citizens of Montana will benefit from self-reporting in a number of ways. Self-reporting will improve the accuracy of information gathered by the division. This improved accuracy will result in a reduced number of taxpayers who feel compelled to file property tax appeals on their property value. Second, it will provide assurance to other citizens that property has been accurately identified and is on the tax rolls correctly.

A significant amount of time is spent attempting to identify specific property characteristics that are pertinent to the valuation of each property. Examples of those characteristics include grade, quality of construction, style of construction, number of bedrooms, number of bathrooms, type of heat, basement area and finish, and other exterior features such as exterior walls, roof type and material, etc. Unfortunately, with the number of two wage-earner families or trespass/ingress difficulties, department staff are often times not able to gather information about the inside of structures, and sometimes the exterior of structures.

The concept of this proposal is two-fold and involves distributing pre-populated self-reporting forms to property owners. First, it is designed to help the department pinpoint property locations where new construction or remodeling has occurred, significantly reducing the time spent discovering new construction and remodeling that occurs under current practices - no building permits, etc. The valuation of smaller newly constructed items such as decks, patios, or porches could be accomplished through the self-reporting form and would not necessarily require an on-site inspection to value the property. Large new construction or remodeling projects would still require an on-site inspection by the appraiser, but the staff time spent identifying such projects would be significantly reduced. Second, it is designed to gather information about the internal construction of the structure. Again, that is important since staff is only able to make direct contact with property owners approximately 30% of the time. Having all the building characteristic information correct is important if the department wants the highest quality reappraisal. With limited resources, self reporting is one of the tools the department needs to employ to help ensure that occurs. Finally, self-reporting is a process that engages citizens cooperatively in the tax system and expands knowledge and understanding among the public as to how property tax valuation occurs.

An ongoing and effective taxpayer information and education campaign would be advisable to encourage taxpayers to use the self-reporting forms. In addition, the department proposes to provide an option of taxpayers to return the information electronically through a secure online system similar or based on the department's online services for state taxes. For the maximum reappraisal benefit under a 2-year reappraisal cycle, the distribution of the self-reporting forms should be in FY2010 for 50% of the properties in Montana and the remaining 50% in FY2011. Done correctly with the involvement and participation of property owners, it will help taxpayers develop a better sense of ownership in the property tax system.

The estimated cost of mailing self-reporting forms to 50% of all residential (including mobile and manufacture homes) and agricultural property owners each year is as follows:

> FY 2010 - $252,800 ($ .75 /self-reporting form X 247,843 forms mailed + $ .45 /form X 148,740 returned forms)
> FY2011 - $258,903 ($ .75 /self-reporting form X 253,827 forms mailed + $ .45 /form X 152,296 returned forms)
>
> <u>For the following reappraisal cycle that falls within the biennium</u>
> FY2012 - $262,011 ($ .75 /self-reporting form X 256,873 forms mailed + $ .45 /form X 154,124 returned forms)
> FY 2013 - $265,155 ($ .75 /self-reporting form X 259,956 forms mailed + $ .45 /form X 155,974 returned forms).

That includes a cover letter ($ .05), self-reporting forms ($ .32), postage ($ .38), and a postage paid return envelope ($ .45). The estimated cost of the self-reporting project assumes that, even with the compliance statutory language as proposed in the following paragraph, 60% of the taxpayers will choose to respond via return mail, 10% will use the online system, and 30% will not respond.

An educational/informational taxpayer program is estimated at $46,000 for FY 2010 and FY 2012. Additional expenses for an advertising campaign include $4,047 for FY 2010 and FY2012 and $60,000 in FY 2011 and FY2013.

An integral part of the success of this option would be the inclusion of statutory language similar to the approach identified in 15-7-139 (7). That is an appeal board would not adjust the estimated value of the real or personal property unless the property owner or the property owner's agent accurately completed and returned the self- reporting form to the department.

<u>Operating Costs</u>
FY2010 = $ 302,847
FY2011 = $ 322,950
FY2012 = $ 312,058
FY2013 = $ 325,155

Additional Travel/Vehicles Operating Costs

With a 2-year cycle (two years for field review), staff will be required to travel more extensively within the region to complete additional reappraisal field reviews. The travel requirement would increase over the current rate of travel for the 6-year cycle. (See reappraisal field review)

1,101,577 annual miles X 2.5 X $0.125 = $344,243 per year

FY2010 = $ 172,121
FY2011 = $ 344,243
FY2012 = $ 344,243
FY2013 = $ 344,243

Additional Staff will require additional vehicles. Current ratio of appraisers to vehicle is 1.3 staff per vehicle. Vehicles are leased from DOT at $11.264 (sedan)/day plus $0.125 per mile, based on current vehicle use and staff average mileage 14,639 mile/appraiser X $0.70/mile = $10,250 X # new staff ÷ 1.3 staff per vehicle.

FY2010 = $ 10,250 X 42.2 New Staff ÷ 1.3 staff per vehicle = $ 332,731 X .5 (one half year)
= $ 166,365

FY2011 = $ 10,250 X 43.3 New Staff ÷ 1.3 staff per vehicle = $ 341,404

FY2012 = $ 10,250 X 43.8 New Staff ÷ 1.3 staff per vehicle = $ 345,346

FY2013 = $ 10,250 X 44.3 New Staff ÷ 1.3 staff per vehicle = $ 349,289

Operating Costs
FY2010 = $ 338,486
FY2011 = $ 685,647
FY2012 = $ 689,589
FY2013 = $ 693,532

One Time Costs for additional personnel

Cameras	$ 130	
GPS	$ 215	
Cubicle work area, counter, bookcase, walls, 2 drawer cabinet	$2,500	
PC & Printer	$1,600	
Chair	$ 350	
Calculator	$ 100	
Computer/Phone (cost of duplex jack)	$ 350	
Total one time costs	$5,245	X 42 = $220,290 X .5 (one half year) = $110,145(FY2010)
		X 22 = $115,390 (FY2011)
		X 1 = $ 5,245 (FY2013)

Annual Costs:

PC Replacement (1/4 replacement)	$ 400
Network costs	$ 960
Supplies	$ 200
Phone (Basic rate $336)+(Long distance $100)	$ 436
Rent Non-DOA Building (250 sq. ft. x $15.00)	$5,500
Training	$ 200
Total annual costs	$7,696 X 42.2 = $324,771 X .5 (one half year) = $162,386 (FY2010) X 43.3 = $333,237 (FY2011) X 43.8 = $337,085 (FY2012) X 44.3 = $340,933 (FY2013)

Operating Costs

FY2010 = $ 272,531
FY2011 = $ 448,627
FY2012 = $ 337,085
FY2013 = $ 346,178

REAPPRAISAL INTERIM YEAR - TIME TREND ADJUSTMENTS

The national standard for reappraisal cycle property reviews is at least one on-site property visit each cycle. Interim year valuation adjustments are also accepted standards. This approach contemplates a reappraisal cycle duration as determined by the Montana legislature, with a base year valuation date, and interim year valuation adjustments of residential property during the cycle to help eliminate "sticker shock", to provide a mechanism to also acknowledge "downturns" in the market, and to help provide equalization.

The Department would contract with an outside expert to perform sales/assessment ratio studies and time trend analyses by market area and recommend interim year residential property valuation adjustments for each market area.

FY2010 (last half) – Operating = $75,000
FY2011 (last half) – Operating = $75,000

Under the current 6-year reappraisal of all real property and personal property homes are only printed in the first year of the reappraisal cycle. Instead of printing all assessments once every

6 years, they would be printed every 2 years. (Assessments mailed by 6/30/12). Making annual valuation adjustments to residential property as a result of sales/assessment ratio studies – time trending analyses means assessment notices will also have to be mailed in Fiscal Years 2010, and 2011. The costs of that effort are:

FY2010 (last half) – Operating

Printing of Assessments	$0.32 X 454,795 = $145,535
Mailing Assessments	$0.38 X 454,795 = $172,820
Total	**$318,355**

FY2011 (last half) – Operating

Printing of Assessments	$0.32 X 454,795 = $145,535
Mailing Assessments	$0.38 X 454,795 = $172,820
Total	**$318,355**

THREE-YEAR REAPPRAISAL CYCLE
COSTS OVER CURRENT BUDGET
(No Oblique Imagery)
Includes New Self-Reporting System

Note: Three Year Cycle may cause problems in determining timely mitigation strategies by the Legislature

PERSONAL SERVICES

FY2010 = $ 773,220
FY2011 = $1,428,307
FY2012 = $1,650,725
FY2013 = $2,081,948

OPERATIONAL EXPENSES

FY2010 = $ 866,843
FY2011 = $ 788,249
FY2012 = $1,219,707
FY2013 = $1,670,590

TOTAL EXPENSES (OVER CURRENT BUDGET LEVEL)

FY2010 = $1,640,063
FY2011 = $2,216,556
FY2012 = $2,870,432
FY2013 = $3,752,538

ADDITIONAL EXPENSES FOR INTERIM YEAR VALUATION ADJUSTMENTS

FY2010 = $393,355
FY2011 = $393,355
FY2012 = $393,355
FY2013 = $393,355

SUMMARY – OPTION 1 – 3-YEAR REAPPRAISAL CYCLE

- 3-Year Reappraisal Cycle
- Cycle begins 1/1/2010
- Cycle ends 12/31/2012
- Base year for the reappraisal cycle = 1/1/2012
- Reappraisal values effective for Tax Year 2013

This option includes:

- A contract to determine market model time trend adjustments.
- A contract to perform a capitalization rate study for commercial property valuation.
- Requiring submission of Income and Expense Information from taxpayers.
- Conducting a housing-market analysis in FY2013.
- Mailing of agricultural and forest land ownership and use maps to taxpayers in FY2013.
- Using a self-reporting process.
- Meetings with an Agricultural Land Valuation Advisory Committee in FY2012.
- Acquisition of new aerial photography for agricultural and forest land reappraisal – to detect changes in use in FY2010, FY2011, FY2012, and FY2013.
- Meetings with a Forest Land Valuation Advisory Committee in FY2012.
- A contract to update forest land information in FY2012.
- A contract to update forest land income information in FY2012.
- DNRC to update forest land expenses in FY2012.
- More extensive field travel by staff to complete reappraisal field reviews in FY2010, FY2011, and FY2012.
- Additional vehicles for additional staff in FY2010, FY2011, FY2012 and FY2013.
- Additional personnel costs (one-time and annual) for new staff in FY2010, FY2011, FY2012 and FY2013.
- Taxpayer education expenses in FY2010, FY2011, FY2012 and FY2013.
- Assessment notices to all Class 3, Class 4 and Class 10 property owners mailed in FY2013 (first half).

Number of Additional FTE (above current level) required for this option:

- 7 appraisers for FY2010 to pick up new construction and use changes, plus
- 4 appraisers for FY2011 to pick up new construction and use changes, plus
- 4 appraisers for FY2012 to pick up new construction and use changes, plus
- 4 appraisers for FY2013 to pick up new construction and use changes, plus
- 18.3 appraisers to complete reappraisal field reviews for FY2010;
- 18.75 additional appraisers to complete reappraisal field reviews for FY2011
- 19 additional appraisers to complete reappraisal field reviews for FY2012
- 19.2 additional appraiser to complete reappraisal field reviews for FY2013.

- 1 half-time Management Analyst to complete new cost tables in FY2012

Reappraisal Interim Year – Time Trend Adjustments:

- A contract to perform sales/assessment ratio studies – time trend analyses and recommend interim year valuation adjustments for residential property.
- Annual Assessment Notices for residential property in FY2010, FY2011, and FY 2012

3-YEAR REAPPRAISAL CYCLE

COSTS OVER CURRENT LEVEL THAT WOULD BE ASSOCIATED WITH A 3-YEAR CYCLE

Assumptions

General

- The new cycle would start 1/1/2010

- Budget authority would be provided by the 2009 Legislature
  - Funding would be available beginning 7/1/2009 (FY2010)

- The new 3-year cycle would end on 12/31/2012

- New reappraisal values would be effective for tax year 2013

- Under the current 6-year reappraisal all real property and personal property mobile homes are only printed in the first year of the reappraisal. In subsequent years only changes are printed and mailed. Instead of printing all assessments once every 6 years, they would be printed every 3 years. (Assessments mailed by 6/30/2013). The change in length of the cycle will require the Department to mail out assessments to all property owners twice as often as we do currently. This will result in a higher cost, but under a new 3-year cycle the increased costs would not be realized until FY2013.

FY2013 - Operating

Printing of Assessments	$0.32 X 634,781 =	$203,130
Mailing Assessments	$0.38 X 634,781 =	$241,216
Total		**$444,346**

- A mitigation strategy would be implemented by the legislature in order to maintain taxable value neutrality for each 3-year reappraisal cycle – this would cause no dramatic increase in appeals or requests for informal property reviews

- Taxpayer Education efforts would continue. Each reappraisal cycle the Department undertakes a program to educate the public about the cyclic reappraisal of Classes 3, 4 and 10 properties. The public education program includes advertisements in newspapers and public service announcements (PSA) on radio and television. The estimated FY2013 cost would be $ 106,000.

FY2013 - Operating
$ 106,000

- A 1.2% increase in parcels per year

Agricultural/Forest Land Reappraisal

- National Agriculture Imagery Program (NAIP) – a new flight of aerial photography would be required in order to maintain agricultural and forest land use changes current. The Aerial Photography Field Office (APFO) is the primary source of aerial imagery for the United States Department of Agriculture. Among the other programs administered by the APFO is the National Agriculture Imagery Program (NAIP). NAIP acquires imagery during the agricultural growing seasons in the continental U.S. A primary goal of the NAIP program is to enable availability of digital orthophotography within a year of acquisition.

  To accomplish the goals of a 3-year appraisal cycle, NAIP imagery would need to be acquired. After acquisition, the latest NAIP imagery is compared to the previous year's imagery. Coupled with other available information, the comparison process will allow the Department to identify changes in use associated with agricultural lands.

  The cost of acquiring statewide NAIP imagery is estimated at $ 30,000 each year of the cycle. Typically the cost of the latest imagery is shared between various state agencies. As part of the cost-share approach to acquiring NAIP imagery, the DOR cost would be $30,000 each year of the cycle.

  Operating Costs
  FY2010 = $30,000
  FY2011 = $30,000
  FY2012 = $30,000
  FY2013 = $30,000

- Farm Services Agency (FSA) – annual updates of Certified Land Unit (CLU) line work delineating boundaries of farmland from grazing land would be required.

- Natural Resources Conservation Service (NRCS) soil survey updates would be required annually. Any updated soil survey information is essential in maintaining the integrity of the system used in valuing agricultural land.

- Energy costs for irrigated land would be collected every 3 years if the 5 agricultural land use type system continues.

- Continuation of using the 5 agricultural land use type system for valuing agricultural land (grazing, non-irrigated summer fallow farm land, non-irrigated continuously cropped farm land, non-irrigated continuously cropped hay land, and tillable irrigated farm land).

- The influence of the current Farm Bill on farm land income would be determined.

- Mailing agricultural land and forest land ownership and use maps. The Department will mail to each agricultural and/or forest land owner pertinent appraisal information. The information will include maps of the individuals' properties, instructions and other information to assist the individual in determining the accuracy of our reappraisal efforts.

Create two sets of township maps for review purposes; 1 set for manual review/corrections and the 2nd corrected set for county office use = $40,000 in FY2013. This cost would be incurred in the last year of the 3-year cycle.

FY2013 (1st Half) – Operating Costs
$40,000

The department would mail maps to each individual landowner for their review and correction prior to the end of the cycle. Along with the cost of producing the maps and mailing them to the individuals, a public relations campaign would be undertaken to notify and explain the map delivery. Based on projected FY08 costs used for HB72, the cost estimates for the agricultural/forest land map mailings are:

FY2013 (2nd Half) – Operating Costs

Create maps	-	$34,585
Mail maps	-	$19,250
Public information	-	$39,357
		$93,190

These costs would be incurred in the last year of the 3-year cycle.

- Meetings of the Governor's Agricultural Land Valuation Advisory Committee will continue. Each reappraisal cycle the Governor appoints individuals knowledgeable about farm practices and farm economics. The Committee reviews information relevant to the determination of value of agricultural lands. If the Committee so chooses they can make recommendations to the Department for changes in the practices of determining the value of agricultural land.

  The Committee would need to meet prior to the completion of the reappraisal of agricultural lands. For a nine (9) member Committee, the estimated cost for each meeting is approximately $4,600 in FY2012. This cost would be incurred during the last year of the 3-year cycle.

	FY2012 – Operating Costs
4 meetings @ $4,600	**$ 18,400**

- Meetings of the Governor's Forest Land Valuation Advisory Committee will be held. Each reappraisal cycle the Governor appoints individuals knowledgeable about forest practices and forest economics. The Committee reviews information relevant to the determination of value of forest lands. If the Committee so chooses they can make recommendations to the Department for changes in the practices of determining the value of forest land.

  The Committee would need to meet prior to the completion of the reappraisal of forest lands. For a nine (9) member Committee, the estimated cost for each meeting is approximately $4,600 in FY2012. This cost would be incurred during the last year of the 3-year cycle.

	<u>FY2012 – Operating Costs</u>
4 meetings @ $4,600	**$ 18,400**

- The department will be required to contract with someone to create or update the forest land information. In prior cycles, that has been the University of Montana/School of Forestry and Conservation. Estimated costs for contracted services are approximately $200,000 based on recent contract information. This cost would be anticipated to occur during the last year of the 3-year cycle.

<u>FY2012 - Operating Costs</u>
$ 200,000

- Forest land income would continue to be provided by the University of Montana, retired professor Dr. David Jackson or someone of equal stature, once every 3 years. Costs associated with this contract would be anticipated to occur during FY2012 of the 3-year cycle.

<u>FY2012 (1st Half) – Operating Costs</u>
$ 10,000

- Forest land expenses would continue to be provided by the Department of Natural Resources and Conservation (DNRC). The cost of acquiring and compiling this information would be anticipated to occur the last year of the 3-year cycle.

Residential/Commercial Property

- The DOR would use current technology to help accomplish the reappraisal of residential and commercial properties every 3 years
  - GPS – Global Positioning System
  - Self-reporting forms

- The department would contract with an expert for the determination of the time trend adjustments needed for market modeling.

<u>FY2012 (2nd Half) – Operating Costs</u>
$ 60,000

- The historical process of verifying sales would continue. That is, for a 3-year reappraisal cycle, sales would be verified during the first and second year of the cycle, with active sales verifications being suspended for the third year. However, if it is determined for the proposed 3-year cycle that the sales for the first 6 months of the final year of the cycle should be verified and made a part of the market modeling process, there would be a cost increase over current level for accomplishing such analysis. This additional effort would be focused on the 7 largest counties in the state, based on the Department's current experience in verifying and analyzing the first 6 months of 2008 sales for the current reappraisal cycle. This additional work effort, if determined to be necessary for future reappraisal cycles would impact workload and staffing requirements for the first 6 months of FY2013. Those increased costs for FY2013 are calculated as follows:

FY2013 (2nd Half) – Personal Services
$251,867

6,240 sales parcels X 1.5 hours = 9,360 hours of work
9,360 hours of increased work ÷ 1760 effective work hours per FTE = 5.3 new FTE

5.3 FTE (Appraisers) X	$34,560 = $	183,168	plus benefits @ 17%	= $ 214,307
plus health Insurance	=	5 X $7,512		= $ 37,560
				$ 251,867

One Time Costs for additional personnel

Cameras	$ 130
GPS	$ 215
Cubicle work area, counter, bookcase, walls, 2 drawer cabinet	$3,500
PC & Printer	$1,600
Chair	$ 350
Calculator	$ 100
Computer/Phone (cost of duplex jack)	$ 350
Total one time costs	$6,245 X 6 = $ 37,470

Annual Costs:	
PC Replacement (1/4 replacement)	$ 400
Network costs	$ 960
Supplies	$ 200
Phone (Basic rate $336)+(Long distance $100)	$ 436
Rent Non-DOA Building (250 sq. ft. x $15.00)	$3,750
Training	$ 200
Total annual costs	$5,946 X 6 = $ 35,676

FY2013 (2nd Half) – Operating Costs
$ 73,146

- The Department of Revenue conducted housing market analyses for the current 6-year reappraisal cycle. That consisted of holding facilitated focus group meetings at 18 locations throughout Montana and contracting with experienced housing market professionals for additional analyses. Those analyses were quite productive, insightful, and worthy of continued consideration for each reappraisal cycle. Additional budget authority to cover the facilitated meetings and the contract for service expenses are included. The meeting costs are estimated at $ 32,900 which includes (air travel to 10 select sites – 1 flight per 2 sites @ $1500 per meeting; facilitator @ $ 20,000; per diem @

100/meeting; meeting refreshments @ $200/meeting). Based on our experience in 2008, contracting for out-side housing market analyses is estimated at $ 50,000.

FY2013 (1st Half) – Operating Costs
$ 50,000

- The department would contract with an expert to perform a capitalization rate study for commercial property structure types. Those capitalization rate(s) would be used for the valuation of commercial properties.

FY2012 (2nd Half) – Operating Costs
$75,000

- Require the submission of income & expense information on commercial properties. The Income Approach is the preferred approach for the valuation of commercial property. That approach involves identifying the gross income of a property, subtracting justified expenses to determine a net operating income and capitalizing that income into an estimate of value through use of a capitalization rate. An integral part of that approach is securing income and expense information. The Department annually requests income and expense information from commercial property owners. Even though that information is held confidential by the Department of Revenue, it is not currently required by law. As a result, historically the return rate has been low. If the Department is to provide a fair and equitable property tax system to the citizens of Montana, the Department should be allowed, similar to other taxing jurisdictions such as Calgary, Alberta, to require the submission of income and expense information. This option contemplates that requirement. This option would include statutory language similar to the approach identified in 15-7-139 (7). That is an appeal board would not adjust the estimated value of the real or personal property unless the property owner or the property owner's agent accurately completed and returned the income and expense reporting form to the department. Since the cost of creating and mailing income and expense forms is currently contained in the "base" of the Department's budget, no additional funding is required. As with the self-reporting requirement, the department proposes to provide an option for taxpayers to return the information electronically through a secure online system similar or based on the department's online services for state taxes.

- Cost tables will be updated. Under the current 6-year cycle, the cost tables are updated every 6 years, this would occur every 3 years with a shortened cycle. Update of cost tables includes collection of the cost to construct all structure types, analysis of the costs on a statewide basis, and update of actual cost tables in ORION. The collection and compilation of information along with the table update requires additional staffing over a 6 month timeframe (Jan. through June 2012) in FY2012.

FY2012 – Personal Services
Temporary Staff (1) 1040 hrs @ $19.73/hour = **$20,520** (Based on the level of pay a temporary Management Analyst)

The implementation of a 4-year reappraisal cycle, given the stated assumptions, would result in annual cost increases to the DOR in order to enable completion of the reappraisal in 4 years rather than in the 6 years as provided for in current law. Those additional costs for the upcoming FY2010/FY2011 Biennium and FY2012/FY2013 Biennium are discussed and shown below.

Provide Additional Staff to the Property Assessment Division

Identifying and valuing new construction and land use changes is linked directly to parcel growth in Montana. During the 2007 legislative session, the Department requested additional staff - 24 FTE in FY 2008 and an additional 8.00 FTE in FY 2009. The proposal addressed the fact that staff had been reduced by 17% in recent years while workload has increased by over 24%. In 1994 the workload level was 2,163 parcels per FTE. As of 2007, the workload had climbed to 3,102 parcels per FTE. The 2007 legislature provided 10 additional FTE, of which 8 FTE were devoted to appraisal activities, which reduced the workload to 3,058 parcels per FTE in 2008. Though growth in Montana continues, the legislature has spoken. It determined that the 2008 workload level of the Property Assessment Division was acceptable. With this request we are honoring that decision. The Division is not requesting additional staff to reduce the 3,058 parcels per FTE level. Rather it is requesting additional staff to maintain that level – nothing more. Before 2005, the rate of growth was 2.5%, while between 2006 and 2007 it slowed to 1.5%. The parcel growth rate from 2007 to 2008 slowed even further to 1.2% - that's much lower than prior years. For this option, the current growth rate of 1.2% was used to extrapolate parcel counts in 2009, 2010, and 2011. As the following line graph displays, in order to maintain the 2008 workload level taking into consideration the increased parcels that will occur through fiscal year 2012, the Division needs 19 additional FTE (7 FTE in FY2010 and 4 FTE in FY2011 and 4 FTE in FY2012 and 4 FTE in FY2013).

Although this proposal is reflecting the need of completing a 3-year reappraisal cycle, the need for the increase in staff to maintain a 3,053 parcels per FTE continues into the following reappraisal cycle.

FY2010 7 FTE @ $34,560 = $241,920 plus 17% benefits		=	$283,046
Plus health insurance	7 FTE X $7512	=	$ 52,584
			$335,630
FY2011 11 FTE @ $34,560 = $380,160 plus 17% benefits		=	$444,787
Plus health insurance	11 FTE X $7512	=	$ 85,632
			$530,419
FY2012 15 FTE @ $34,560 = $518,400 plus 17% benefits		=	$606,528
Plus health insurance	15 FTE X $7512	=	$112,680
			$719,208

FY2013 19 FTE @ $34,560 = $656,640 plus 17% benefits		=	$768,269
Plus health insurance	19 FTE X $7512	=	$142,728
			$910,997

Personal Services

FY2010 = $335,630
FY2011 = $527,419
FY2012 = $719,208
FY2013 = $910,997

One Time Costs for additional personnel operating costs

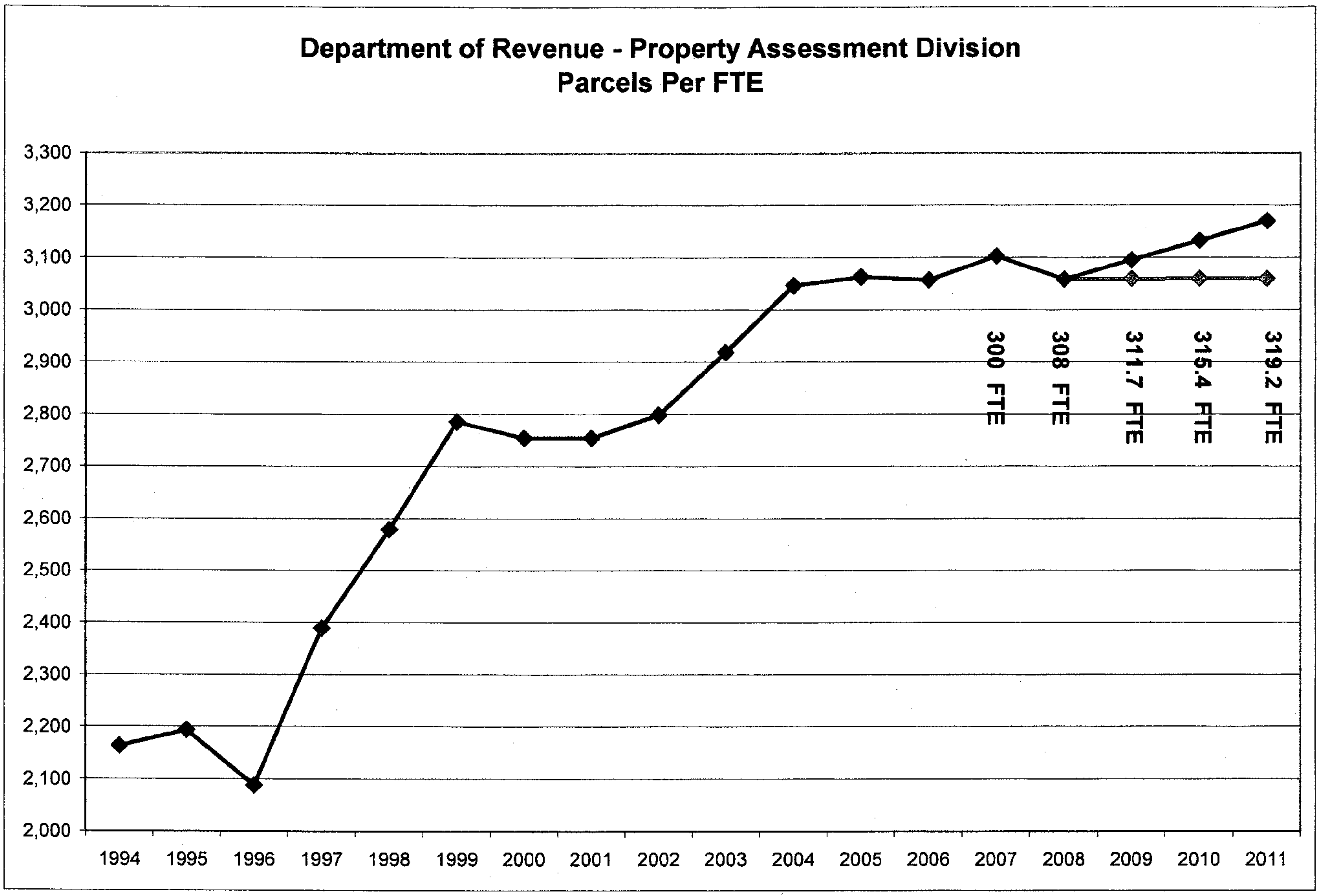
$5,245 X 7 = $ 36,715 for FY2010
$5,245 X 4 = $ 20,980 for FY2011
$5,245 X 4 = $ 20,980 for FY2012
$5,245 X 4 = $ 20,980 for FY2013

Annual Costs

$7,696 X 7 = $ 53,872 for FY2010
$7,696 X 11 = $ 84,656 for FY2011
$7,696 X 15 = $115,440 for FY2012
$7,696 X 19 = $146,224 for FY2013

Operating Costs

FY2010 = $ 90,586
FY2011 = $ 102,634
FY2012 = $ 136,417
FY2013 = $ 167,204



<u>Reappraisal Field Reviews</u>

The compression of a growing workload into a shorter period of time will have an impact on staffing requirements. Our current appraisal staff is required to make field reviews of all improved properties (residential, commercial, agricultural/forest) once during the current reappraisal cycle (6 years). This would then require that 20% of the total improved properties be reviewed. However, in going to a 3-year reappraisal cycle, the requirement would increase to completing 33% per year – an increase in this workload requirement for each year of the cycle. During the first tax year of a reappraisal, no field reviews are completed as the January to June timeframe is spent completing the final determination of values and the July through December is spent completing the appeal process. Therefore the reappraisal field reviews would begin January 1, 2010 (second half FY2010) under this proposal.

Expanding this workload requirement would result in a workload increase as follows:

<u>FY2010 (2nd Half) – Personal Services</u>

6-year - 495,686 improved parcels X 20% = 99,137 parcels annually
99,137 parcels X 30 minutes per parcel = 2,974,110 minutes of work
2,974,110 minutes ÷ 60 minutes/hour = 49,568 hours of work annually

3-year - 495,586 improved parcels X 33% = 163,576 parcels annually
163,576 parcels X 30 minutes per parcel = 4,907,280 minutes of work
4,907,280 minutes ÷ 60 minutes/hour = 81,788 hours of work annually

The increase in workload would require an increase in staffing to complete the work. Therefore, (3-year annual workload) – (6-year annual workload) = increase in workload

32,220 hours of increased work ÷ 1760 effective work hours per FTE = 18.3 new FTE

18.3 FTE X $34,560	= $ 632,448	plus benefits @ 17%	= $ 739,964
plus health insurance	18 X $7,512		= $ 135,216
			$ 875,180

Funding is needed only for the second half of FY2010 for these FTE ($875,180 X 50% (6 Months)) = **$ 437,590**

FY2011 – Personal Services

6-year - 501,634 X 1.012 improved parcels X 20% = 101,531 parcels annually
101,531 parcels X 30 minutes per parcel = 3,045,930 minutes of work
3,045,930 minutes ÷ 60 minutes/hour = 50,765 hours of work annually

3-year - 501,634 X 1.012 improved parcels X 33% = 167,526 parcels annually
167,526 parcels X 30 minutes per parcel = 5,025,780 minutes of work
5,025,780 minutes ÷ 60 minutes/hour = 83,763 hours of work annually

The increase in workload would require an increase in staffing to complete the work. Therefore, (3-year annual workload) – (6-year annual workload) = increase in workload

32,998 hours of increased work ÷ 1760 effective work hours per FTE = 18.75 new FTE

18.75 FTE X $34,560	= $ 648,000	plus benefits @ 17%	= $ 758,160
plus health insurance	19 X $7,512		= $ 142,728
			$ 900,888

FY2012 – Personal Services

6-year - 507,654 X 1.012 improved parcels X 20% = 102,749 parcels annually
102,749 parcels X 30 minutes per parcel = 3,082,470 minutes of work
3,082,470 minutes ÷ 60 minutes/hour = 51,374 hours of work annually

3-year - 507,654 X 1.012 improved parcels X 33% = 169,536 parcels annually
169,536 parcels X 30 minutes per parcel = 5,086,080 minutes of work
5,086,080 minutes ÷ 60 minutes/hour = 84,768 hours of work annually

The increase in workload would require an increase in staffing to complete the work. Therefore, (3-year annual workload) – (6-year annual workload) = increase in workload

33,394 hours of increased work ÷ 1760 effective work hours per FTE = 19 new FTE

19 FTE X $34,560 = $656,640	plus benefits @ 17%	= $	768,269
plus health insurance	19 X $7,512	= $	142,728
		$	**910,997**

FY2013 – Personal Services

6-year - 513,746 X 1.012 improved parcels X 20% = 103,982 parcels annually
103,982 parcels X 30 minutes per parcel = 3,119,460 minutes of work
3,119,460 minutes ÷ 60 minutes/hour = 51,991 hours of work annually

3-year - 513,746 X 1.012 improved parcels X 33% = 171,571 parcels annually
171,571 parcels X 30 minutes per parcel = 5,147,130 minutes of work
5,147,130 minutes ÷ 60 minutes/hour = 85,785 hours of work annually

The increase in workload would require an increase in staffing to complete the work. Therefore, (3-year annual workload) – (6-year annual workload) = increase in workload

33,794 hours of increased work ÷ 1760 effective work hours per FTE = 19.2 new FTE

19.2 FTE X $34,560 = $663,552	plus benefits @ 17%	= $	776,356
plus health insurance	19 X $7,512	= $	142,728
		$	**919,084**

Personal Services

FY2010 = $ 437,590
FY2011 = $ 900,888
FY2012 = $ 910,997
FY2013 = $ 919,084

Implement a Property Self-Reporting Process

This request involves the use of a property self-reporting process. Self-reporting of property changes is not a new concept - it was successfully used in two pilot counties (Hill County & Carbon County) in the 2000 tax year. The citizens of Montana will benefit from self-reporting in a number of ways. Self-reporting will improve the accuracy of information gathered by the division. This improved accuracy will result in a reduced number of taxpayers who feel compelled to file property tax appeals on their property value. Second, it will provide assurance to other citizens that property has been accurately identified and is on the tax rolls correctly.

A significant amount of time is spent attempting to identify specific property characteristics that are pertinent to the valuation of each property. Examples of those characteristics include grade, quality of construction, style of construction, number of bedrooms, number of bathrooms, type of heat, basement area and finish, and other exterior features such as exterior walls, roof type and material, etc. Unfortunately, with the number of two wage-earner families or trespass/ingress difficulties, department staff are often times not able to gather information about the inside of structures, and sometimes the exterior of structures.

The concept of this proposal is two-fold and involves distributing pre-populated self-reporting forms to property owners. First, it is designed to help the department pinpoint property locations where new construction or remodeling has occurred, significantly reducing the time spent discovering new construction and remodeling that occurs under current practices - no building permits, etc. The valuation of smaller newly constructed items such as decks, patios, or porches could be accomplished through the self-reporting form and would not necessarily require an on-site inspection to value the property. Large new construction or remodeling projects would still require an on-site inspection by the appraiser, but the staff time spent identifying such projects would be significantly reduced. Second, it is designed to gather information about the internal construction of the structure. Again, that is important since staff is only able to make direct contact with property owners approximately 30% of the time. Having all the building characteristic information correct is important if the department wants the highest quality reappraisal. With limited resources, self-reporting is one of the tools the department needs to employ to help ensure that occurs. Finally, self-reporting is a process that engages citizens cooperatively in the tax system and expands knowledge and understanding among the public as to how property tax valuation occurs.

An ongoing and effective taxpayer information and education campaign would be advisable to encourage taxpayers to use the self-reporting forms. In addition, the department proposes to provide an option of taxpayers to return the information electronically through a secure online system similar or based on the department's online services for state taxes. For the maximum reappraisal benefit under a 3-year reappraisal cycle, the distribution of the self-reporting forms should occur annually for 33% of the properties in Montana. Done correctly with the involvement and participation of property owners, it will help taxpayers develop a better sense of ownership in the property tax system.

The estimated cost of mailing self-reporting forms to 33% of all residential (including mobile and manufacture homes) and agricultural property owners each year is as follows:

FY2010 – $166,848 ($.75/self-reporting form X 163,576 forms mailed + $.45/form X 98,146 returned forms)
FY2011 - $168,849 ($.75/self-reporting form X 165,539 forms mailed + $.45/form X 99,323 returned forms)
FY2012 - $170,876 ($.75/self-reporting form X 167,526 forms mailed + $.45/form X 100,516 returned forms)

For the 1st year of the next reappraisal cycle

FY2013 - $172,927 ($.75/self-reporting form X 169,536 forms mailed + $.45/form X 101,722 returned forms)

That includes a cover letter ($ .05), self-reporting forms ($ .32), postage ($ .38), and a postage paid return envelope ($ .45). The estimated cost of the self-reporting project assumes that, even with the compliance statutory language as proposed in the following paragraph, 60% of the taxpayers will choose to respond via return mail, 10% will use the online system, and 30% will not respond.

An educational/informational taxpayer program is estimated at $46,000 for FY 2010 and for FY 2011 and for FY 2013. Additional expenses for an advertising campaign include $4,047 in FY 2010 and FY 2011 and FY 2013, and $60,000 in FY 2012.

An integral part of the success of this option would be the inclusion of statutory language similar to the approach identified in 15-7-139 (7). That is an appeal board would not adjust the estimated value of the real or personal property unless the property owner or the property owner's agent accurately completed and returned the self-reporting form to the department.

Operating Costs
FY2010 = $ 216,895
FY2011 = $ 218,896
FY2012 = $ 230,876
FY2013 = $ 222,974

Additional Travel/Vehicles operating costs

With a 3-year cycle, staff will be required to travel more extensively within the region to complete additional reappraisal field reviews. The travel requirement would increase over the current rate of travel for the 6-year cycle. (See reappraisal field review)

1,101,577 annual miles X 1.05 X $0.125 = $144,582 for each Fiscal Year 2010 through 2013

Additional Staff will require additional vehicles. Current ratio of appraisers to vehicle is 1.3 staff per vehicle. Vehicles are leased from DOT at $11.264 (sedan)/day plus $0.125 per mile, based on current vehicle use and staff average mileage 14,639 mile/appraiser X $0.70/mile = $10,250 X # new staff

18.3 ÷ 1.3 staff per vehicle = $144,288 = FY2010
18.75 ÷ 1.3 staff per vehicle = $147,837 = FY2011
19 ÷ 1.3 staff per vehicle = $149,808 = FY2012
19.2 ÷ 1.3 staff per vehicle = $151,385 = FY2013

Operating Costs
FY2010 = $ 288,870
FY2011 = $ 292,419
FY2012 = $ 294,390
FY2013 = $ 295,967

One Time Costs for additional personnel operating costs

Cameras $ 130

GPS	$ 215
Cubicle work area, counter, bookcase, walls, 2 drawer cabinet	$2,500
PC & Printer	$1,600
Chair	$ 350
Calculator	$ 100
Computer/Phone (cost of duplex jack)	$ 350
Total one time costs	$5,245 X 19 = $99,655 for FY2010

Annual Costs:	
PC Replacement (1/4 replacement)	$ 400
Network costs	$ 960
Supplies	$ 200
Phone (Basic rate $336)+(Long distance $100)	$ 436
Rent Non-DOA Building (250 sq. ft. x $22.00)	$5,500
Training	$ 200
Total annual costs	$7,696 X 18.3 = $140,837 For FY 2010
	$7,696 X 18.75 = $144,300 For FY 2011
	$7,696 X 19 = $146,224 For FY 2012
	$7,696 X 19.2 = $147,763 For FY 2013

Operating Costs

FY2010 = $ 240,492
FY2011 = $ 144,300
FY2012 = $ 146,224
FY2013 = $ 147,763

REAPPRAISAL INTERIM YEAR - TIME TREND ADJUSTMENTS

The national standard for reappraisal cycle property reviews is at least one on-site property visit each cycle. Interim year valuation adjustments are also accepted standards. This approach contemplates a reappraisal cycle duration as determined by the Montana legislature, with a base year valuation date, and interim year valuation adjustments of residential property during the cycle to help eliminate "sticker shock", to provide a mechanism to also acknowledge "downturns" in the market, and to help provide equalization.

The Department would contract with an outside expert to perform sales/assessment ratio studies and time trend analyses by market area and recommend interim year residential property valuation adjustments for each market area.

FY2010 (last half) – Operating = $75,000
FY2011 (last half) – Operating = $75,000
FY2012 (last half) – Operating = $75,000

Under the current 6-year reappraisal of all real property and personal property homes are only printed in the first year of the reappraisal cycle. Instead of printing all assessments once every 6 years, they would be printed every 3 years. (Assessments mailed by 6/30/13). Making annual valuation adjustments to residential property as a result of sales/assessment ratio studies – time trending analyses means assessment notices will also have to be mailed in Fiscal Years 2010, 2011, and 2012. The costs of that effort are:

FY2010 (last half) – Operating

Printing of Assessments	$0.32 X 454,795 = $145,535
Mailing Assessments	$0.38 X 454,795 = $172,820
Total	$318,355

FY2011 (last half) – Operating

Printing of Assessments	$0.32 X 454,795 = $145,535
Mailing Assessments	$0.38 X 454,795 = $172,820
Total	$318,355

FY2012 (last half) – Operating

Printing of Assessments	$0.32 X 454,795 = $145,535
Mailing Assessments	$0.38 X 454,795 = $172,820
Total	$318,355

THREE-YEAR REAPPRAISAL CYCLE
COSTS OVER CURRENT BUDGET
(With Oblique Imagery)
Includes New Self Reporting System

Note: Three Year Cycle may cause problems in determining timely mitigation strategies by the Legislature

PERSONAL SERVICES

FY2010 = $ 773,220
FY2011 = $1,431,307
FY2012 = $1,006,438
FY2013 = $ 782,286

OPERATIONAL EXPENSES

FY2010 = $6,195,900
FY2011 = $6,192,451
FY2012 = $6,509,146
FY2013 = $7,049,242

TOTAL EXPENSES (OVER CURRENT BUDGET LEVEL)

FY2010 = $6,969,120
FY2011 = $7,623,758
FY2012 = $7,515,584
FY2013 = $7,831,528

ADDITIONAL EXPENSES FOR INTERIM YEAR VALUATION ADJUSTMENTS

FY2010 = $393,355
FY2011 = $393,355
FY2012 = $393,355
FY2013 = $393,355

SUMMARY – OPTION 2 – 3-YEAR REAPPRAISAL CYCLE

- 3-Year Reappraisal Cycle
- Cycle begins 1/1/2010
- Cycle ends 12/31/2012
- Base year for the reappraisal cycle = 1/1/2012
- Reappraisal values effective for Tax Year 2013

This option includes:

- The purchase and use of oblique imagery.
- A contract to determine market model time trend adjustments.
- A contract to perform a capitalization rate study for commercial property valuation.
- Requiring submission of Income and Expense Information from taxpayers.
- Conducting a housing-market analysis in FY2013.
- Mailing of agricultural and forest land ownership and use maps to taxpayers in FY2013.
- Using a self-reporting process.
- Meetings with an Agricultural Land Valuation Advisory Committee in FY2012.
- Acquisition of new aerial photography for agricultural and forest land reappraisal – to detect changes in use in FY2010, FY2011, FY2012, and FY2013.
- Meetings with a Forest Land Valuation Advisory Committee in FY2012.
- A contract to update forest land information in FY2012.
- A contract to update forest land income information in FY2012.
- DNRC to update forest land expenses in FY2012.
- More extensive field travel by staff to complete reappraisal field reviews in FY2010, FY2011, and FY2012.
- Additional vehicles for additional staff in FY2010, FY2011, FY2012 and FY2013.
- Additional personnel costs (one-time and annual) for new staff in FY2010, FY2011, FY2012 and FY2013.
- Taxpayer education expenses in FY2010, FY2011, FY2012 and FY2013.
- Assessment notices to all Class 3, Class 4 and Class 10 property owners mailed in FY2013 (first half).

Number of Additional FTE (above current level) required for this option:

- 7 appraisers for FY2010 to pick up new construction and use changes, plus
- 4 appraisers for FY2011 to pick up new construction and use changes, plus
- 18.3 appraisers to complete reappraisal field reviews for 2nd Half FY2010;
- 18.75 additional appraisers to complete reappraisal field reviews for FY2011
- 19 additional appraisers to complete reappraisal field reviews for 1st Half FY2012
- 1 half-time Management Analyst to complete new cost tables in FY2012

Reappraisal Interim Year – Time Trend Adjustments:

- A contract to perform sales/assessment ratio studies – time trend analyses and recommend interim year valuation adjustments for residential property.
- Annual Assessment Notices for residential property in FY2010, FY2011, and FY 2012

3-YEAR REAPPRAISAL CYCLE

COSTS OVER CURRENT LEVEL THAT WOULD BE ASSOCIATED WITH A 3-YEAR CYCLE

Assumptions

General

- The new cycle would start 1/1/2010
- Budget authority would be provided by the 2009 Legislature
    - Funding would be available beginning 7/1/2009 (FY2010)
- The new 3-year cycle would end on 12/31/2012
- New reappraisal values would be effective for tax year 2013
- Under the current 6-year reappraisal all real property and personal property mobile homes are only printed in the first year of the reappraisal. In subsequent years only changes are printed and mailed. Instead of printing all assessments once every 6 years, they would be printed once every 3 years. (Assessments mailed by 6/30/2013). The change in length of the cycle will require the Department to mail out assessments to all property owners twice as often as we do currently. This will result in a higher cost, but under a new 3-year cycle the increased costs would not be realized until FY2013.

FY2013 - Operating

Printing of Assessments	$0.32 X 634,781 =	$203,130
Mailing Assessments	$0.38 X 634,781 =	$241,216
Total		**$444,346**

- A mitigation strategy would be implemented by the legislature in order to maintain taxable value neutrality for each 3-year reappraisal cycle – this would cause no dramatic increase in appeals or requests for informal property reviews
- Taxpayer Education efforts would continue. Each reappraisal cycle the Department undertakes a program to educate the public about the cyclic reappraisal of Classes 3, 4 and 10 properties. The public education program includes advertisements in newspapers and public service announcements (PSA) on radio and television. The estimated FY2013 cost would be $ 106,000.

FY2013 - Operating
$ 106,000

- A 1.2% increase in parcels per year

Agricultural/Forest Land Reappraisal

- National Agriculture Imagery Program (NAIP) – a new flight of aerial photography would be required in order to maintain agricultural and forest land use changes current. The Aerial Photography Field Office (APFO) is the primary source of aerial imagery for the United States Department of Agriculture. Among the other programs administered by the APFO is the National Agriculture Imagery Program (NAIP). NAIP acquires imagery during the agricultural growing seasons in the continental U.S. A primary goal of the NAIP program is to enable availability of digital orthophotography within a year of acquisition.

  To accomplish the goals of a 3-year appraisal cycle, NAIP imagery would need to be acquired. After acquisition, the latest NAIP imagery is compared to the previous year's imagery. Coupled with other available information, the comparison process will allow the Department to identify changes in use associated with agricultural lands.

  The cost of acquiring statewide NAIP imagery is estimated at $ 30,000 each year of the cycle. Typically the cost of the latest imagery is shared between various state agencies. As part of the cost-share approach to acquiring NAIP imagery, the DOR cost would be $30,000 each year of the cycle.

  <u>Operating Costs</u>
  FY2010 = $30,000
  FY2011 = $30,000
  FY2012 = $30,000
  FY2013 = $30,000

- Farm Services Agency (FSA) – annual updates of Certified Land Unit (CLU) line work delineating boundaries of farmland from grazing land would be required.

- Natural Resources Conservation Service (NRCS) soil survey updates would be required annually. Any updated soil survey information is essential in maintaining the integrity of the system used in valuing agricultural land.

- Energy costs for irrigated land would be collected every 3 years if the 5 agricultural land use type system continues.

- Continuation of using the 5 agricultural land use type system for valuing agricultural land (grazing, non-irrigated summer fallow farm land, non-irrigated continuously cropped farm land, non-irrigated continuously cropped hay land, and tillable irrigated farm land).

- The influence of the current Farm Bill on farm land income would be determined.

- Mailing agricultural land and forest land ownership and use maps. The Department will mail to each agricultural and/or forest land owner pertinent appraisal information. The information will include maps of the individuals' properties, instructions and other information to assist the individual in determining the accuracy of our reappraisal efforts.

Create two sets of township maps for review purposes; 1 set for manual review/corrections and the 2nd corrected set for county office use = $40,000 in FY2013. This cost would be incurred in the last year of the 3-year cycle.

FY2013 (1st Half) – Operating Costs
$40,000

The department would mail maps to each individual landowner for their review and correction prior to the end of the cycle. Along with the cost of producing the maps and mailing them to the individuals, a public relations campaign would be undertaken to notify and explain the map delivery. Based on projected FY08 costs used for HB72, the cost estimates for the agricultural/forest land map mailings are:

FY2013 (2nd Half) – Operating Costs

Create maps	-	$34,585
Mail maps	-	$19,250
Public information	-	$39,357
		$93,190

These costs would be incurred in the last year of the 3-year cycle.

- Meetings of the Governor's Agricultural Land Valuation Advisory Committee will continue. Each reappraisal cycle the Governor appoints individuals knowledgeable about farm practices and farm economics. The Committee reviews information relevant to the determination of value of agricultural lands. If the Committee so chooses they can make recommendations to the Department for changes in the practices of determining the value of agricultural land.

  The Committee would need to meet prior to the completion of the reappraisal of agricultural lands. For a nine (9) member Committee, the estimated cost for each meeting is approximately $4,600 in FY2012. This cost would be incurred during the last year of the 3-year cycle.

FY2012 – Operating Costs

4 meetings @ $4,600 **$ 18,400**

- Meetings of the Governor's Forest Land Valuation Advisory Committee will be held. Each reappraisal cycle the Governor appoints individuals knowledgeable about forest practices and forest economics. The Committee reviews information relevant to the determination of value of forest lands. If the Committee so chooses they can make recommendations to the Department for changes in the practices of determining the value of forest land.

  The Committee would need to meet prior to the completion of the reappraisal of forest lands. For a nine (9) member Committee, the estimated cost for each meeting is approximately $4,600 in FY2012. This cost would be incurred during the last year of the 3-year cycle.

	FY2012 – Operating Costs
4 meetings @ $4,600	**$ 18,400**

- The department will be required to contract with someone to create or update the forest land information. In prior cycles, that has been the University of Montana/School of Forestry and Conservation. Estimated costs for contracted services are approximately $200,000 based on recent contract information. This cost would be anticipated to occur during the last year of the 3-year cycle.

FY2012 - Operating Costs
$ 200,000

- Forest land income would continue to be provided by the University of Montana, retired professor Dr. David Jackson or someone of equal stature, once every 3 years. Costs associated with this contract would be anticipated to occur during FY2012 of the 3-year cycle.

FY2012 (1st Half) – Operating Costs
$ 10,000

- Forest land expenses would continue to be provided by the Department of Natural Resources and Conservation (DNRC). The cost of acquiring and compiling this information would be anticipated to occur the last year of the 3-year cycle.

Residential/Commercial Property

- The DOR would use current technology to help accomplish the reappraisal of residential and commercial properties every 3 years
  - GPS – Global Positioning System
  - Self-reporting forms
  - Oblique Imagery

- Use oblique imagery in select areas of Montana in conjunction with other state agencies and local governments.

  - In order to accomplish its Constitutional charge to provide an equitable property tax system, the Department of Revenue, Property Assessment Division needs access to the most current technology available. That's especially true in light of its inability to secure budget authority to hire additional appraisal staff. Possibly the most promising technology is oblique imagery coupled with change resolution software. It's currently used in 48 states – Montana is only one of two states that have not yet availed itself of oblique imagery technology. The reported success of its application in other states clearly suggests it has great application for Montana. In addition, the "*Standard on Property Tax Policy* of the International Association of Assessing Officers (IAAO, 2004) and section 4.7 of its *Standard on Mass*

Appraisal of Real Property (2002) calls for annual reassessments with comprehensive reappraisals involving an on-site inspection of every property at least every six years unless other change-detecting technologies, such as oblique aerial imagery are used.

- Oblique aerial imagery is the technical term used to describe an aerial photograph that is taken at an angle. That allows staff the ability to view features, such as a house, building, industrial facility from multiple angles and directions. And while staff will be able to determine number of stories, structural height, square footage etc., the resolution will not result in privacy invasion issues. In fact, there is currently and will be much greater resolution and 3-D ability that already exists with Google Earth and Microsoft Visual Earth software used by millions to locate and view property every day than there will be with this application. In fact that 3-D, street level imagery view currently exists for property in Billings, Montana. With respect to any potential privacy concerns, the imagery will actually help resolve trespass concerns that taxpayers currently have. This type of imagery will also provide the capability to quickly determine acreages associated with land use change or natural disasters, such as forest fires. Use of oblique imagery has application for many other areas of state and local government. In addition to property appraisals and assessments, examples include 911 Public Safety, Law Enforcement, Homeland Security, GIS applications, Fire Departments, Planning, and Transportation.

- The department would propose to contract with a firm to be determined via the RFP process for the annual purchase of orthogonal and oblique imagery for all of the following high growth counties: Cascade, Flathead, Gallatin, Jefferson, Lake, Lewis & Clark, Madison, Missoula, Park, Ravalli, Silver Bow, and Yellowstone Counties. The intent would be to use "Change Analysis" software to detect and measure, as needed, changes in buildings/structures and land uses. Based on a flight conducted in Yellowstone County, it's clear that this is a key technology that will allow the Division to locate and determine changes in improvements in lieu of going on-site or canvassing the entire county. For significant differences or changes, it will allow the Division to focus its limited resources on specific areas or structures. Also of great importance is that it will allow the Division to reduce or discontinue additional staffing requests from the Legislature for the foreseeable future.

- The Property Assessment Division proposes utilizing oblique imagery as herein described. This proposal contemplates total private land coverage of the following counties - Cascade, Flathead, Gallatin, Jefferson, Lake, Lewis & Clark, Madison, Missoula, Park, Ravalli, Silver Bow, and Yellowstone. That type of coverage would allow staff to ensure improvements and land use changes in remote locations, gated communities, and in areas that are most subject to trespass issues are valued and assessed. Those are the areas that are typically most problematic for staff. This option contemplates one flight each year. Based on information received from firms that provide oblique aerial imagery, the costs for this option are estimated at $ 5,401,200 per year.

- While this is currently a stand alone proposal, it's highly likely that other state agencies and local governments may wish to participate. If that's the direction the legislature would like to head and since the Department of Administration's Geographic Information Officer (GIO) is currently involved in securing those types of partnerships and funding for other types of imagery (i.e. NAIP), that individual might be a logical place for securing that type of involvement for oblique aerial imagery.

• Oblique Aerial Imagery

- **Estimated Costs by County –**

• Cascade County	2,234 square miles @ $350/square mile =	$ 781,900
• Flathead County	1,267 square miles @ $350/square mile =	$ 443,450
• Gallatin County	1,401 square miles@ $350/square mile =	$ 490,350
• Jefferson County	727 square miles @ $350/square mile =	$ 254,450
• Lake County	792 square miles@ $350/square mile =	$ 277,200
• Lewis & Clark County	1,555 square miles @ $350/square mile =	$ 544,250
• Madison County	1,710 square miles @ $350/square mile =	$ 598,500
• Missoula County	1,189 square miles @ $350/square mile =	$ 416,150
• Park County	1,261 square miles @ $350/square mile =	$ 441,350
• Ravalli County	592 square miles @ $350/square mile =	$ 207,200
• Silver Bow County	518 square miles @ $350/square mile =	$ 181,300
• Yellowstone County	2,186 square miles @ $350/square mile =	$ 765,100
• **Total:**	**15,432 square miles @ $350/square miles =**	**$ 5,401,200**

- <u>**Operating Costs**</u>
- **FY2010 – $5,401,200**
- **FY2011 – $5,401,200**
- **FY2012 – $5,401,200**
- **FY2013 – $5,401,200**

- The department would contract with an expert for the determination of the time trend adjustments needed for market modeling.

<u>**FY2013 (1st Half) – Operating**</u>
$ 60,000

- The historical process of verifying sales would continue. That is, for a 3-year reappraisal cycle, sales would be verified during the first and second year of the cycle, with active sales verifications being suspended for the third year. However, if it is determined for the proposed 3-year cycle that the sales for the first 6 months of the final year of the cycle should be verified and made a part of the market modeling process, there would be a cost increase over current level for accomplishing such analysis. This additional effort would be focused on the 7 largest counties in the state, based on the Department's current experience in verifying and analyzing the first 6 months of 2008 sales for the current reappraisal cycle. This additional work effort, if determined to be necessary for future reappraisal cycles would impact workload and staffing requirements for the first 6 months of FY2013. Those increased costs for FY2013 are calculated as follows:

FY2013 (2nd Half) – Personal Services
$251,867

6,240 sales parcels X 1.5 hours = 9,360 hours of work
9,360 hours of increased work ÷ 1760 effective work hours per FTE = 5.3 new FTE

5.3 FTE (Appraisers) X	$34,560 = $	183,168	plus benefits @ 17%	= $ 214,307
plus health Insurance	=	5 X $7,512		= $ 37,560
				$ 251,867

One Time Costs for additional personnel

Cameras	$ 130	
GPS	$ 215	
Cubicle work area, counter, bookcase, walls, 2 drawer cabinet	$3,500	
PC & Printer	$1,600	
Chair	$ 350	
Calculator	$ 100	
Computer/Phone (cost of duplex jack)	$ 350	
Total one time costs	$6,245 X 6	= $ 37,470

Annual Costs:		
PC Replacement (1/4 replacement)	$ 400	
Network costs	$ 960	
Supplies	$ 200	
Phone (Basic rate $336)+(Long distance $100)	$ 436	
Rent Non-DOA Building (250 sq. ft. x $15.00)	$3,750	
Training	$ 200	
Total annual costs	$5,946 X 6	= $ 35,676

FY2013 (2nd Half) – Operating Costs
$ 73,146

- The Department of Revenue conducted housing market analyses for the current 6-year reappraisal cycle. That consisted of holding facilitated focus group meetings at 18 locations throughout Montana and contracting with experienced housing market professionals for additional analyses. Those analyses were quite productive, insightful, and worthy of continued consideration for each reappraisal cycle. Additional budget authority to cover the facilitated meetings and the contract for service expenses are included. The meeting costs are estimated at $ 32,900 which includes (air travel to 10 select sites – 1 flight per 2 sites @ $1500 per meeting; facilitator @ $ 20,000; per diem @ 100/meeting; meeting refreshments @ $200/meeting). Based on our experience in 2008, contracting for out-side housing market analyses is estimated at $ 50,000.

FY2013 (1st Half) – Operating Costs
$ 50,000

- The department would contract with an expert to perform a capitalization rate study for commercial property structure types. Those capitalization rate(s) would be used for the valuation of commercial properties.

FY2012 (2nd Half) – Operating Costs
$75,000

- Require the submission of income & expense information on commercial properties. The Income Approach is the preferred approach for the valuation of commercial property. That approach involves identifying the gross income of a property, subtracting justified expenses to determine a net operating income and capitalizing that income into an estimate of value through use of a capitalization rate. An integral part of that approach is securing income and expense information. The Department annually requests income and expense information from commercial property owners. Even though that information is held confidential by the Department of Revenue, it is not currently required by law. As a result, historically the return rate has been low. If the Department is to provide a fair and equitable property tax system to the citizens of Montana, the Department should be allowed, similar to other taxing jurisdictions such as Calgary, Alberta, to require the submission of income and expense information. This option contemplates that requirement. This option would include statutory language similar to the approach identified in 15-7-139 (7). That is an appeal board would not adjust the estimated value of the real or personal property unless the property owner or the property owner's agent accurately completed and returned the income and expense reporting form to the department. Since the cost of creating and mailing income and expense forms is currently contained in the "base" of the Department's budget, no additional funding is required. As with the self-reporting requirement, the department proposes to provide an option for taxpayers to return the information electronically through a secure online system similar or based on the department's online services for state taxes.

- Cost tables will be updated. Under the current 6-year cycle, the cost tables are updated every 6 years, this would occur every 3 years with a shortened cycle. Update of cost tables includes collection of the cost to construct all structure types, analysis of the costs on a statewide basis, and update of actual cost tables in ORION. The collection and compilation of information along with the table update requires additional staffing over a 6 month timeframe (Jan. through June 2012) in FY2012.

FY2012 – Personal Services
Temporary Staff (1) 1040 hrs @ $19.73/hour = **$20,520** (Based on the level of pay a temporary Management Analyst)

The implementation of a 4-year reappraisal cycle, given the stated assumptions, would result in annual cost increases to the DOR in order to enable completion of the reappraisal in 4 years rather than in the 6 years as provided for in current law. Those additional costs for the upcoming FY2010/FY2011 Biennium and FY2012/FY2013 Biennium are discussed and shown below.

Provide Additional Staff to the Property Assessment Division

Identifying and valuing new construction and land use changes is linked directly to parcel growth in Montana. During the 2007 legislative session, the Department requested additional staff - 24 FTE in FY 2008 and an additional 8.00 FTE in FY 2009. The proposal addressed the fact that staff had been reduced by 17% in recent years while workload has increased by over 24%. In 1994 the workload level was 2,163 parcels per FTE. As of 2007, the workload had climbed to 3,102 parcels per FTE. The 2007 legislature provided 10 additional FTE, of which 8 FTE were devoted to appraisal activities, which reduced the workload to 3,058 parcels per FTE in 2008. Though growth in Montana continues, the legislature has spoken. It determined that the 2008 workload level of the Property Assessment Division was acceptable. With this request we are honoring that decision. The Division is not requesting additional staff to reduce the 3,058 parcels per FTE level. Rather it is requesting additional staff to maintain that level – nothing more. Before 2005, the rate of growth was 2.5%, while between 2006 and 2007 it slowed to 1.5%. The parcel growth rate from 2007 to 2008 slowed even further to 1.2% - that's much lower than prior years. For this option, the current growth rate of 1.2% was used to extrapolate parcel counts in 2009, 2010, and 2011. As the following line graph displays, in order to maintain the 2008 workload level taking into consideration the increased parcels that will occur through fiscal year 2012, the Division needs 11 additional FTE (7 FTE in FY2010 and 4 FTE in FY2011 and 4 FTE in FY2012 and 4 FTE in FY2013). However, with the use of the Oblique Imagery, no new appraisers will be required in Fiscal Year 2012 and 2013.

Although this proposal is reflecting the need of completing a 3-year reappraisal cycle, the need for the increase in staff to maintain a 3,053 parcels per FTE continues into the following reappraisal cycle.

FY2010 7 FTE @ $34,560 = $241,920 plus 17% benefits		=	$283,046
Plus health insurance	7 FTE X $7512	=	$ 52,584
			$335,630

FY2011 11 FTE @ $34,560 = $380,160 plus 17% benefits		=	$444,787
Plus health insurance	11 FTE X $7512	=	$ 85,632
			$530,419
FY2012 11 FTE @ $34,560 = $380,160 plus 17% benefits		=	$444,787
Plus health insurance	11 FTE X $7512	=	$ 85,632
			$530,419
FY2013 11 FTE @ $34,560 = $380,160 plus 17% benefits		=	$444,787
Plus health insurance	11 FTE X $7512	=	$ 85,632
			$530,419

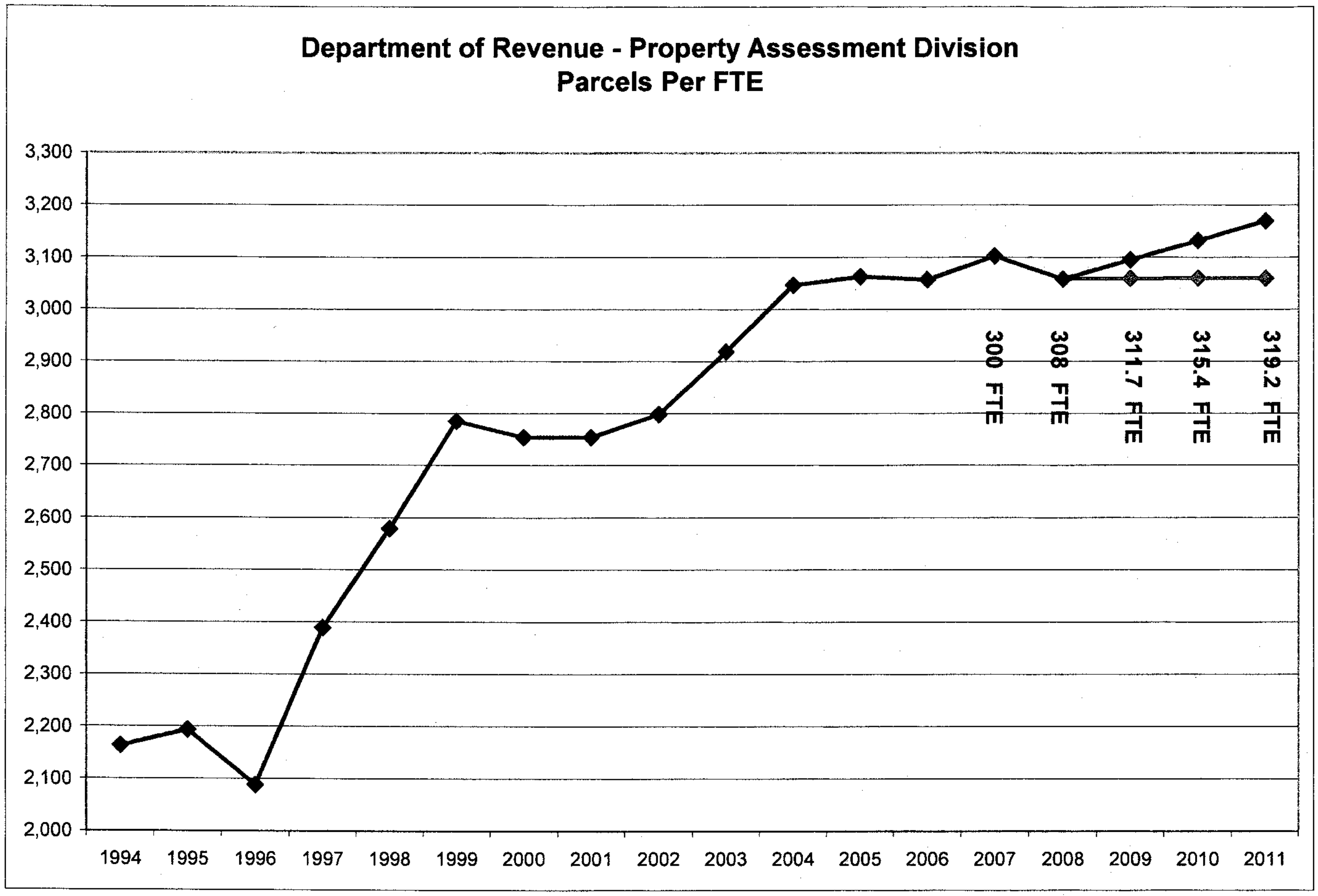
Personal Services
FY2010 = $335,630
FY2011 = $530,419
FY2012 = $530,419
FY2013 = $530,419

One Time Costs for additional personnel operating costs

$5,245 X 7 = $ 36,715 for FY2010
$5,245 X 4 = $ 20,980 for FY2011
$5,245 X 0 = $ 0 for FY2012
$5,245 X 0 = $ 0 for FY2013

Annual Costs
$7,696 X 7 = $ 53,872 for FY2010
$7,696 X 11 = $ 84,656 for FY2011
$7,696 X 11 = $84,656 for FY2012
$7,696 X 11 = $84,656 for FY2013

Operating Costs
FY2010 = $ 90,587
FY2011 = $ 105,636
FY2012 = $ 84,656
FY2013 = $ 84,656



<u>Reappraisal Field Reviews</u>

The compression of a growing workload into a shorter period of time will have an impact on staffing requirements. Our current appraisal staff is required to make field reviews of all improved properties (residential, commercial, agricultural/forest) once during the current reappraisal cycle (6 years). This would then require that 20% of the total improved properties be reviewed. However, in going to a 3-year reappraisal cycle, the requirement would increase to completing 33% per year – an increase in this workload requirement for each year of the cycle. During the first tax year of a reappraisal, no field reviews are completed as the January to June timeframe is spent completing the final determination of values and the July through December is spent completing the appeal process. Therefore the reappraisal field reviews would begin January 1, 2010 (second half FY2010) under this proposal. The Property Assessment Division estimates that it will take two years for oblique imagery to impact reappraisal field reviews. In FY2012 and

FY2013, the Department estimates due to the efficiency of oblique imagery, the field reviews could be accomplished with existing staff.

Expanding this workload requirement would result in a workload increase as follows:

<u>FY2010 (2nd Half) – Personal Services</u>

6-year - 495,686 improved parcels X 20% = 99,137 parcels annually
99,137 parcels X 30 minutes per parcel = 2,974,110 minutes of work
2,974,110 minutes ÷ 60 minutes/hour = 49,568 hours of work annually

3-year - 495,586 improved parcels X 33% = 163,576 parcels annually
163,576 parcels X 30 minutes per parcel = 4,907,280 minutes of work
4,907,280 minutes ÷ 60 minutes/hour = 81,788 hours of work annually

The increase in workload would require an increase in staffing to complete the work. Therefore, (3-year annual workload) – (6-year annual workload) = increase in workload

32,220 hours of increased work ÷ 1760 effective work hours per FTE = 18.3 new FTE

18.3 FTE X $34,560	= $ 632,448	plus benefits @ 17%	= $ 739,964
plus health insurance	18 X $7,512		= $ 135,216
			$ 875,180

Funding is needed only for the second half of FY2010 for these FTE ($875,180 X 50% (6 Months)) = $ 437,590

<u>FY2011 – Personal Services</u>

6-year - 501,634 X 1.012 improved parcels X 20% = 101,531 parcels annually
101,531 parcels X 30 minutes per parcel = 3,045,930 minutes of work
3,045,930 minutes ÷ 60 minutes/hour = 50,765 hours of work annually

3-year - 501,634 X 1.012 improved parcels X 33% = 167,526 parcels annually
167,526 parcels X 30 minutes per parcel = 5,025,780 minutes of work
5,025,780 minutes ÷ 60 minutes/hour = 83,763 hours of work annually

The increase in workload would require an increase in staffing to complete the work. Therefore, (3-year annual workload) – (6-year annual workload) = increase in workload

32,998 hours of increased work ÷ 1760 effective work hours per FTE = 18.75 new FTE

18.75 FTE X $34,560	= $ 648,000	plus benefits @ 17%	= $ 758,160
plus health insurance	19 X $7,512		= $ 142,728
			$ 900,888

<u>FY2012 (1st Half) – Personal Services</u>

6-year - 507,654 X 1.012 improved parcels X 20% = 102,749 parcels annually

102,749 parcels X 30 minutes per parcel = 3,082,470 minutes of work
3,082,470 minutes ÷ 60 minutes/hour = 51,374 hours of work annually

3-year - 507,654 X 1.012 improved parcels X 33% = 169,536 parcels annually
169,536 parcels X 30 minutes per parcel = 5,086,080 minutes of work
5,086,080 minutes ÷ 60 minutes/hour = 84,768 hours of work annually

The increase in workload would require an increase in staffing to complete the work. Therefore, (3-year annual workload) – (6-year annual workload) = increase in workload

33,394 hours of increased work ÷ 1760 effective work hours per FTE = 19 new FTE

19 FTE X $34,560 = $656,640	plus benefits @ 17%	= $ 768,269
plus health insurance	19 X $7,512	= $ 142,728
		$ 910,997

Funding is needed only for the first half of FY2012 for these FTE ($910,997 X 50% (6 Months)) = $ 455,499

FY2013 – Personal Services

No additional FTE needed

Personal Services
FY2010 = $ 437,590
FY2011 = $ 900,888
FY2012 = $ 455,499
FY2013 = $ 0

Implement a Property Self Reporting Process

This request involves the use of a property self-reporting process. Self-reporting of property changes is not a new concept - it was successfully used in two pilot counties (Hill County & Carbon County) in the 2000 tax year. The citizens of Montana will benefit from self-reporting in a number of ways. Self-reporting will improve the accuracy of information gathered by the division. This improved accuracy will result in a reduced number of taxpayers who feel compelled to file property tax appeals on their property value. Second, it will provide assurance to other citizens that property has been accurately identified and is on the tax rolls correctly.

A significant amount of time is spent attempting to identify specific property characteristics that are pertinent to the valuation of each property. Examples of those characteristics include grade, quality of construction, style of construction, number of bedrooms, number of bathrooms, type of heat, basement area and finish, and other exterior features such as exterior walls, roof type and material, etc. Unfortunately, with the number of two wage-earner families or trespass/ingress difficulties, department staff are often times not able to gather information about the inside of structures, and sometimes the exterior of structures.

The concept of this proposal is two-fold and involves distributing pre-populated self-reporting forms to property owners. First, it is designed to help the department pinpoint property locations where new construction or remodeling has occurred, significantly reducing the time spent discovering new construction and remodeling that occurs under current practices - no building permits, etc. The valuation of smaller newly constructed items such as decks, patios, or porches could be accomplished through the self-reporting form and would not necessarily require an on-site inspection to value the property. Large new construction or remodeling projects would still require an on-site inspection by the appraiser, but the staff time spent identifying such projects would be significantly reduced. Second, it is designed to gather information about the internal construction of the structure. Again, that is important since staff is only able to make direct contact with property owners approximately 30% of the time. Having all the building characteristic information correct is important if the department wants the highest quality reappraisal. With limited resources, self-reporting is one of the tools the department needs to employ to help ensure that occurs. Finally, self-reporting is a process that engages citizens cooperatively in the tax system and expands knowledge and understanding among the public as to how property tax valuation occurs.

An ongoing and effective taxpayer information and education campaign would be advisable to encourage taxpayers to use the self-reporting forms. In addition, the department proposes to provide an option of taxpayers to return the information electronically through a secure online system similar or based on the department's online services for state taxes. For the maximum reappraisal benefit under a 3-year reappraisal cycle, the distribution of the self-reporting forms should occur annually for 33% of the properties in Montana. Done correctly with the involvement and participation of property owners, it will help taxpayers develop a better sense of ownership in the property tax system.

The estimated cost of mailing self-reporting forms to 33% of all residential (including mobile and manufacture homes) and agricultural property owners each year is as follows:

FY2010 – $166,848 ($.75/self-reporting form X 163,576 forms mailed + $.45/form X 98,146 returned forms)

FY2011 - $168,849 ($.75/self-reporting form X 165,539 forms mailed + $.45/form X 99,323 returned forms)

FY2012 - $170,876 ($.75/self-reporting form X 167,526 forms mailed + $.45/form X 100,516 returned forms)

For the 1st year of the next reappraisal cycle

FY2013 - $172,927 ($.75/self-reporting form X 169,536 forms mailed + $.45/form X 101,722 returned forms)

That includes a cover letter ($ .05), self-reporting forms ($ .32), postage ($ .38), and a postage paid return envelope ($ .45). The estimated cost of the self-reporting project assumes that, even with the compliance statutory language as proposed in the following paragraph, 60% of the taxpayers will choose to respond via return mail, 10% will use the online system, and 30% will not respond.

An educational/informational taxpayer program is estimated at $46,000 for FY 2010 and for FY 2011 and for FY 2013. Additional expenses for an advertising campaign include $4,047 in FY 2010 and FY 2011 and FY 2013, and $60,000 in FY 2012.

An integral part of the success of this option would be the inclusion of statutory language similar to the approach identified in 15-7-139 (7). That is an appeal board would not adjust the estimated value of the real or personal property unless the property owner or the property owner's agent accurately completed and returned the self-reporting form to the department.

Operating Costs
FY2010 = $ 216,895
FY2011 = $ 218,896
FY2012 = $ 230,876
FY2013 = $ 222,974

Additional Travel/Vehicles operating costs

With a 3-year cycle, staff will be required to travel more extensively within the region to complete additional reappraisal field reviews. The travel requirement would increase over the current rate of travel for the 6-year cycle. (See reappraisal field review)

1,101,577 annual miles X 1.05 X $0.125 = $144,582 for each Fiscal Year 2010 through 2012

Additional Staff will require additional vehicles. Current ratio of appraisers to vehicle is 1.3 staff per vehicle. Vehicles are leased from DOT at $11.264 (sedan)/day plus $0.125 per mile, based on current vehicle use and staff average mileage 14,639 mile/appraiser X $0.70/mile = $10,250 X # new staff

18.3 ÷ 1.3 staff per vehicle =	$ 72,144 (6 months)	FY2010
18.75 ÷ 1.3 staff per vehicle =	$ 147,837	FY2011
19 ÷ 1.3 staff per vehicle =	$ 149,808	FY2012
19.2 ÷ 1.3 staff per vehicle =	$ 151,385	FY2013

Operating Costs
FY2010 = $ 216,726
FY2011 = $ 292,419
FY2012 = $ 294,390
FY2013 = $ 295,967

One Time Costs for additional personnel operating costs

Cameras	$ 130
GPS	$ 215

Cubicle work area, counter, bookcase, walls, 2 drawer cabinet	$2,500
PC & Printer	$1,600
Chair	$ 350
Calculator	$ 100
Computer/Phone (cost of duplex jack)	$ 350
Total one time costs	$5,245 X 19 = $99,655 for FY2010

Annual Costs:	
PC Replacement (1/4 replacement)	$ 400
Network costs	$ 960
Supplies	$ 200
Phone (Basic rate $336)+(Long distance $100)	$ 436
Rent Non-DOA Building (250 sq. ft. x $22.00)	$5,500
Training	$ 200
Total annual costs	$7,696 X 18.3 = $140,837 For FY 2010
	$7,696 X 18.75 = $144,300 For FY 2011
	$7,696 X 19 = $146,224 For FY 2012
	$7,696 X 19.2 = $147,763 For FY 2012

Operating Costs

FY2010 = $ 240,492
FY2011 = $ 144,300
FY2012 = $ 146,224
FY2013 = $ 147,763

REAPPRAISAL INTERIM YEAR - TIME TREND ADJUSTMENTS

The national standard for reappraisal cycle property reviews is at least one on-site property visit each cycle. Interim year valuation adjustments are also accepted standards. This approach contemplates a reappraisal cycle duration as determined by the Montana legislature, with a base year valuation date, and interim year valuation adjustments of residential property during the cycle to help eliminate "sticker shock", to provide a mechanism to also acknowledge "downturns" in the market, and to help provide equalization.

The Department would contract with an outside expert to perform sales/assessment ratio studies and time trend analyses by market area and recommend interim year residential property valuation adjustments for each market area.

FY2010 (last half) – Operating = $75,000
FY2011 (last half) – Operating = $75,000
FY2012 (last half) – Operating = $75,000

Under the current 6-year reappraisal of all real property and personal property homes are only printed in the first year of the reappraisal cycle. Instead of printing all assessments once every 6 years, they would be printed every 3 years. (Assessments mailed by 6/30/13). Making annual valuation adjustments to residential property as a result of sales/assessment ratio studies – time trending analyses means assessment notices will also have to be mailed in Fiscal Years 2010, 2011, and 2012. The costs of that effort are:

<u>FY2010 (last half) – Operating</u>

Printing of Assessments	$0.32 X 454,795 = $145,535
Mailing Assessments	$0.38 X 454,795 = <u>$172,820</u>
Total	$318,355

<u>FY2011 (last half) – Operating</u>

Printing of Assessments	$0.32 X 454,795 = $145,535
Mailing Assessments	$0.38 X 454,795 = <u>$172,820</u>
Total	$318,355

<u>FY2012 (last half) – Operating</u>

Printing of Assessments	$0.32 X 454,795 = $145,535
Mailing Assessments	$0.38 X 454,795 = <u>$172,820</u>
Total	$318,355

FOUR YEAR REAPPRAISAL CYCLE COSTS OVER CURRENT BUDGET

(No Oblique Imagery)
Includes New Self Reporting Process

Note: Four Year Cycle may cause problems in determining timely mitigation strategies by the Legislature

PERSONAL SERVICES

FY2010 = $ 503,445
FY2011 = $ 871,135
FY2012 = $ 1,066,970
FY2013 = $ 1,535,190

OPERATIONAL EXPENSES

FY2010 = $ 587,395
FY2011 = $ 571,895
FY2012 = $ 605,795
FY2013 = $ 1,100,050

TOTAL EXPENSES (OVER CURRENT BUDGET LEVEL)

FY2010 = $ 1,090,840
FY2011 = $ 1,443,030
FY2012 = $ 1,672,765
FY2013 = $ 2,635,240

ADDITIONAL EXPENSES FOR INTERIM YEAR VALUATION ADJUSTMENTS

FY2010 = $ 393,355
FY2011 = $ 393,355
FY2012 = $ 393,355
FY2012 = $ 393,355

SUMMARY – OPTION 1 – (4-YEAR REAPPRAISAL CYCLE)

- 4-Year Reappraisal Cycle
- Cycle begins 1/1/2010
- Cycle ends 12/31/2013
- Base year for the reappraisal cycle = 1/1/2013
- Reappraisal values effective for Tax Year 2014

This option includes:

- A contract to determine market model time trend adjustments.
- A contract to perform a capitalization rate study for commercial property valuations.
- Requiring submission of Income and Expense Information from taxpayers.
- Conducting a housing-market analysis in FY2014.
- Mailing of agricultural and forest land ownership and use maps to taxpayers in FY2014.
- Using a self-reporting process.
- Meetings with an Agricultural Land Valuation Advisory Committee in FY2013.
- Acquisition of new aerial photography for agricultural and forest land reappraisal – to detect changes in use in FY2010, FY2011, FY2012 and FY2013.
- Meetings with a Forest Land Valuation Advisory Committee in FY2013.
- A contract to update forest land information in FY2013
- A contract to update forest land income information in FY2013.
- DNRC to update forest land expenses in FY2013.
- More extensive field travel by staff to complete reappraisal field reviews in FY2010, FY2011, FY2012 and FY2013.
- Additional vehicles for additional staff in FY2010, FY2011, FY2012 and FY2013.
- Additional personnel costs (one-time and annual) for new staff in FY2010, FY2011, FY2012 and FY2013.
- Taxpayer education expenses in FY2010, FY2011, FY2012, and FY2013.
- Assessment notices to all Class 3, Class 4 and Class 10 property owners mailed in FY2014 (1st half).

Number of Additional FTE (above current level) required for this option:

- 7 appraisers for FY2010 to pick up new construction and use changes, plus
- 4 additional appraisers for FY2011 to pick up new construction and use changes, plus
- 4 additional appraisers for FY2012 to pick up new construction and use changes, plus
- 4 additional appraisers for FY2013 to pick up new construction and use changes.

- 7 appraisers to complete reappraisal field reviews each year in FY2010 through FY2013, plus
- 1 half-time Management Analyst to complete new cost tables in FY2013.

Reappraisal Interim Year – Time Trend Adjustments:

- A contract to perform sales/assessment ratio studies – time trend analyses and recommend interim year valuation adjustments for residential property.
- Annual assessment notices for residential property in FY2010, FY2011, FY2012, and FY2013

4-YEAR REAPPRAISAL CYCLE (NO OBLIQUE IMAGERY)

COSTS OVER CURRENT LEVEL THAT WOULD BE ASSOCIATED WITH A 4-YEAR CYCLE

Assumptions

General

- The new cycle would start 1/1/2010
- Budget authority would be provided by the 2009 Legislature
  - Funding would be available beginning 7/1/2009 (FY2010)
- The new 4-year cycle would end on 12/31/2013
- New reappraisal values would be effective for tax year 2014
- Under the current 6-year reappraisal all real property and personal property mobile homes are only printed in the first year of the reappraisal. In subsequent years only changes are printed and mailed. Instead of printing all assessments once every 6 years, they would be printed once every 4 years. (Assessments mailed by 6/30/2014). The change in length of the cycle will require the Department to mail out assessments to all property owners more often than is done currently. This will result in a higher cost, but under a new 4-year cycle the increased costs would not be realized until FY2014.

FY2014 Operating Costs		
Printing of Assessments	\$0.32 X 634,781 =	\$203,130
Mailing Assessments	\$0.38 X 634,781 =	\$241,216
Total		**\$444,346**

- A mitigation strategy would be implemented by the legislature in order to maintain taxable value neutrality for each 4-year reappraisal cycle – this would cause no dramatic increase in appeals or requests for informal property reviews
- Taxpayer Education efforts would continue. Each reappraisal cycle the Department undertakes a program to educate the public about the cyclic reappraisal of Classes 3, 4 and 10 properties. The public education program includes advertisements in newspapers and public service announcements (PSA) on radio and television. The estimated FY2014 cost would be \$ 106,000.

FY2014 Operating Costs
\$ 106,000

- A 1.2% increase in parcels per year

Agricultural/Forest Land Reappraisal

- National Agriculture Imagery Program (NAIP) – a new flight of aerial photography would be required in order to maintain agricultural and forest land use changes current. The Aerial Photography Field Office (APFO) is the primary source of aerial imagery for the United States Department of Agriculture. Among the other programs administered by the APFO is the National Agriculture Imagery Program (NAIP). NAIP acquires imagery during the agricultural growing seasons in the continental U.S. A primary goal of the NAIP program is to enable availability of digital orthophotography within a year of acquisition.

  To accomplish the goals of a 4-year appraisal cycle, NAIP imagery would need to be acquired. After acquisition, the latest NAIP imagery is compared to the previous year's imagery. Coupled with other available information, the comparison process will allow the Department to identify changes in use associated with agricultural lands.
  The cost of acquiring statewide NAIP imagery is estimated at $ 30,000 each year of the cycle. Typically the cost of the latest imagery is shared between various state agencies. As part of the cost-share approach to acquiring NAIP imagery, the DOR cost would be $ 30,000 annually.

  <u>Operating Costs</u>
  FY2010 – $ 30,000
  FY2011 – $ 30,000
  FY2012 – $ 30,000
  FY2013 – $ 30,000

- Farm Services Agency (FSA) – annual updates of Certified Land Unit (CLU) line work delineating boundaries of farmland from grazing land would be required.

- Natural Resources Conservation Service (NRCS) soil survey updates would be required annually. Any updated soil survey information is essential in maintaining the integrity of the system used in valuing agricultural land.

- Energy costs for irrigated land would be collected every 4 years if the 5 agricultural land use type system continues.

- Continuation of using the 5 agricultural land use type system for valuing agricultural land (grazing, non-irrigated summer fallow farm land, non-irrigated continuously cropped farm land, non-irrigated continuously cropped hay land, and tillable irrigated farm land).

- The influence of the current Farm Bill on farm land income would be determined.

- Mailing agricultural land and forest land ownership and use maps. The Department will mail to each agricultural and/or forest land owner pertinent appraisal information. The information will include maps of the individuals' properties, instructions and other information to assist the individual in determining the accuracy of our reappraisal efforts. Create two sets of township maps for review purposes; 1 set for manual review/corrections and the 2nd corrected set for county office use = $40,000 in FY2014. This cost would be incurred in the last year of the 4-year cycle.

FY2014 (1st Half) - Operating Costs
$40,000

The department would mail maps to each individual landowner for their review and correction prior to the end of the cycle. Along with the cost of producing the maps and mailing them to the individuals, a public relations campaign would be undertaken to notify and explain the map delivery. The cost estimates for the agricultural/forest land map mailings are:

FY2014 (2nd Half) - Operating Costs

Create maps	-	$34,585
Mail maps	-	$19,250
Public information	-	$39,357
		$93,190

These costs would be incurred in the last year of the 4-year cycle.

- Meetings of the Governor's Agricultural Land Valuation Advisory Committee will continue. Each reappraisal cycle the Governor appoints individuals knowledgeable about farm practices and farm economics. The Committee reviews information relevant to the determination of value of agricultural lands. If the Committee so chooses, they can make recommendations to the Department for changes in the practices of determining the value of agricultural land.

  The Committee would need to meet prior to the completion of the reappraisal of agricultural lands. For a nine (9) member Committee, the estimated cost for each meeting is approximately $4,600 in FY2013. This cost would be incurred during the last year of the 4-year cycle.

FY2013 Operating Costs
4 meetings @ $4,600 **$ 18,400**

- Meetings of the Governor's Forest Land Advisory Committee will be held.
  Each reappraisal cycle the Governor will appoint individuals knowledgeable about forest land productivity and forest land economics. The Committee reviews information relevant to the determination of value of forest lands. If the Committee so chooses, they can make recommendations to the Department for changes in the practices of determining the value of forest land.

The Committee would need to meet prior to the completion of the reappraisal of forest lands. For a nine (9) member Committee, the estimated cost for each meeting is approximately $4,600 in FY2013. This cost would be incurred during the last year of the 4-year cycle.

<u>FY2013 Operating Costs</u>
4 meetings @ $4,600 **$ 18,400**

- The department will contract with someone to create or update the forest land information. In prior cycles, that has been the University of Montana – School of Forestry and Conservation. Estimated costs for contracted services are approximately $200,000 based on recent contract information. This cost would be anticipated to occur during the last year of the 4-year cycle.

<u>FY2013 Operating Costs</u>
$ 200,000

- Forest land income would continue to be provided by the University of Montana, retired professor Dr. David Jackson or someone of equal stature, once every 4 years. Costs associated with this contract would be anticipated to occur during FY2013 of the 4-year cycle.

<u>FY2013 (1st Half) - Operating Costs</u>
$ 10,000

- Forest land expenses would continue to be provided by the Department of Natural Resources and Conservation (DNRC) every 4 years. The cost of acquiring and compiling this information would be anticipated to occur the 4th year of the 4-year cycle.

Residential/Commercial Property

- The DOR would use current technology to help accomplish the reappraisal of residential and commercial properties every 4 years
    - GPS – Global Positioning System
    - Self-reporting forms
- The Department would contract with an expert for the determination of the time trend adjustments needed for market modeling.

<u>FY2013 (2nd Half) – Operating</u>
$ 60,000

- The historical process for sales verifications would continue. That is, for a 4-year reappraisal cycle, sales would be verified during the first, second, and third year of the cycle, with active sales verifications being suspended for the fourth year. However, if it is determined for the proposed 4-year cycle that the sales for the first 6 months of the final year of the cycle should be verified and made a part of the market modeling process, there would be a cost increase over current level for accomplishing such analysis. This additional effort would be focused on the 7 largest counties in the state, based on the Department's current experience in verifying and analyzing the first 6 months of 2008 sales for the current reappraisal cycle. This additional work effort, if determined to be necessary for future reappraisal cycles would impact workload and staffing requirements for the first 6 months of 2013. Those increased costs for FY2013 are calculated as follows:

FY2013 (2nd half) - Personal Services

6,240 sales parcels X 1.5 hours = 9,360 hours of work
9,360 hours of increased work ÷ 1760 effective work hours per FTE = 5.3 new FTE

5.3 FTE (Appraisers) X	$34,560 = $ 183,168	plus benefits @ 17%	= $ 214,307
plus health Insurance	= 5 X $7,512		= $ 37,560
			$ 251,867

FY2013 One Time Costs for additional personnel operating costs

Cameras	$ 130
GPS	$ 215
Cubicle work area, counter, bookcase, walls, 2 drawer cabinet	$2,500
PC & Printer	$1,600
Chair	$ 350
Calculator	$ 100
Computer/Phone (cost of duplex jack)	$ 350
Total one time costs	$5,245 X 5.3 = $27,799

= $ 55,597

FY2013 (2nd half) - Annual Costs:

PC Replacement (1/4 replacement)	$ 400
Network costs	$ 960
Supplies	$ 200
Phone (Basic rate $336)+(Long distance $100)	$ 436
Rent Non-DOA Building (250 sq. ft. x $15.00)	$5,500
Training	$ 200
Total annual costs	$7,696 X 5.3 = $ 40,789

FY 2013 - Operating Costs = $68,588

- The Department of Revenue conducted housing market analyses for the current 6-year reappraisal cycle. That consisted of holding facilitated focus group meetings at 18 locations throughout Montana and contracting with experienced housing market professionals for additional analyses. Those analyses were quite productive, insightful and worthy of continued consideration for each reappraisal cycle. Additional budget authority to cover the facilitated meetings and the contract for service expenses are included. The meeting costs are estimated at $ 32,900 which includes (air travel to 10 select sites – 1 flight per 2 sites @ $1500 per meeting; facilitator @ $ 20,000; per diem @ 100/meeting; meeting refreshments @ $200/meeting). Based on our experience in 2008, contracting for out-side housing market analyses is estimated at $ 50,000.

FY2014 (1st Half) - Operating Costs
$ 50,000

- The Department would contract with an expert to perform a capitalization rate study for commercial property structure types. Those capitalization rates would be used for the valuation of commercial properties.

FY2013 (2nd Half) – Operating
$ 75,000

- Require the submission of income & expense information on commercial properties. The Income Approach is the preferred approach for the valuation of commercial property. That approach involves identifying the gross income of a property, subtracting justified expenses to determine a net operating income and capitalizing that income into an estimate of value through use of a capitalization rate. An integral part of that approach is securing income and expense information. The Department annually requests income and expense information from commercial property owners. Even though that information is held confidential by the Department of Revenue, it is not currently required by law. As a result, historically the return rate has been low. If the Department is to provide a fair and equitable property tax system to the citizens of Montana, the Department should be allowed, similar to other taxing jurisdictions such as Calgary, Alberta, to require the submission of income and expense information. This option contemplates that requirement. This option would include statutory language similar to the approach identified in 15-7-139 (7). That is an appeal board would not adjust the estimated value of the real or personal property unless the property owner or the property owner's agent accurately completed and returned the income and expense reporting form to the department. Since the cost of creating and mailing income and expense forms is currently contained in the "base" of the Department's budget, no additional funding is required. As with the self reporting requirement, the department proposes to provide an option for taxpayers to return the information electronically through a secure online system similar or based on the department's online services for state taxes.

- Cost tables will be updated. Under the current 6-year cycle, the cost tables are updated every 6 years, this would occur every 4 years with a shortened cycle. Update of cost tables includes collection of the cost to construct all structure types, analysis of the costs on a statewide basis, and update of actual cost tables in ORION. The collection and compilation of information along with the table update requires additional staffing over a 6 month timeframe (Jan. through June 2013) in FY2013.

FY2013 – Personal Services
Temporary Staff (1) 1040 hrs @ $19.73/hour = $20,520 (Based on the level of pay a temporary Management Analyst)

Personal Services
FY2013 - $20,520

The implementation of a 4-year reappraisal cycle, given the stated assumptions, would result in annual cost increases to the DOR in order to enable completion of the reappraisal in 4 years rather than in the 6 years as provided for in current law. Those additional costs for the upcoming FY2010/FY2011 Biennium and FY2012/FY2013 Biennium are discussed and shown below.

Provide Additional Staff to the Property Assessment Division

Identifying and valuing new construction and land use changes is linked directly to parcel growth in Montana. During the 2007 legislative session, the Department requested additional staff - 24 FTE in FY 2008 and an additional 8.00 FTE in FY 2009. The proposal addressed the fact that staff had been reduced by 17% in recent years while workload has increased by over 24%. In 1994 the workload level was 2,163 parcels per FTE. As of 2007, the workload had climbed to 3,102 parcels per FTE. The 2007 legislature provided 10 additional FTE, of which 8 FTE were devoted to appraisal activities, which reduced the workload to 3,058 parcels per FTE in 2008. Though growth in Montana continues, the legislature has spoken. It determined that the 2008 workload level of the Property Assessment Division was acceptable. With this request we are honoring that decision. The Division is not requesting additional staff to reduce the 3,058 parcels per FTE level. Rather it is requesting additional staff to maintain that level – nothing more. Before 2005, the rate of growth was 2.5%, while between 2006 and 2007 it slowed to 1.5%. The parcel growth rate from 2007 to 2008 slowed even further to 1.2% - that's much lower than prior years. For this option, the current growth rate of 1.2% was used to extrapolate parcel counts in 2009, 2010, 2011 and 2012. As the following line graph displays, in order to maintain the 2008 workload level taking into consideration the increased parcels that will occur through fiscal year 2013, the Division needs 19 additional FTE (7 FTE in FY2010, 4 FTE in FY2011, 4 FTE in FY2012 and 4 FTE in FY 2013). Although this proposal is reflecting the need to complete a 4-year reappraisal cycle, the need for the increase in staff to maintain a 3,053 parcels per FTE level continues into the following reappraisal cycle.

FY2010 7 FTE X	$34,560	= $ 241,920	plus benefits @ 17%	= $ 283,046
plus health insurance		7 FTE X $7,512		= $ 52,584
				$ 335,630
FY2011 11 FTE X	$34,560	= $ 380,160	plus benefits @ 17%	= $ 444,787
plus health insurance		11 FTE X $7,512		= $ 82,632
				$ 527,419
FY2012 15 FTE X	$34,560	= $ 518,400	plus benefits @ 17%	= $ 606,528
plus health insurance		15 FTE X $7,512		= $ 112,680
				$ 719,208
FY2013 19 FTE X	$34,560	= $ 656,640	plus benefits @ 17%	= $ 768,269
plus health insurance		19 FTE X $7,512		= $ 142,728
				$ 910,997

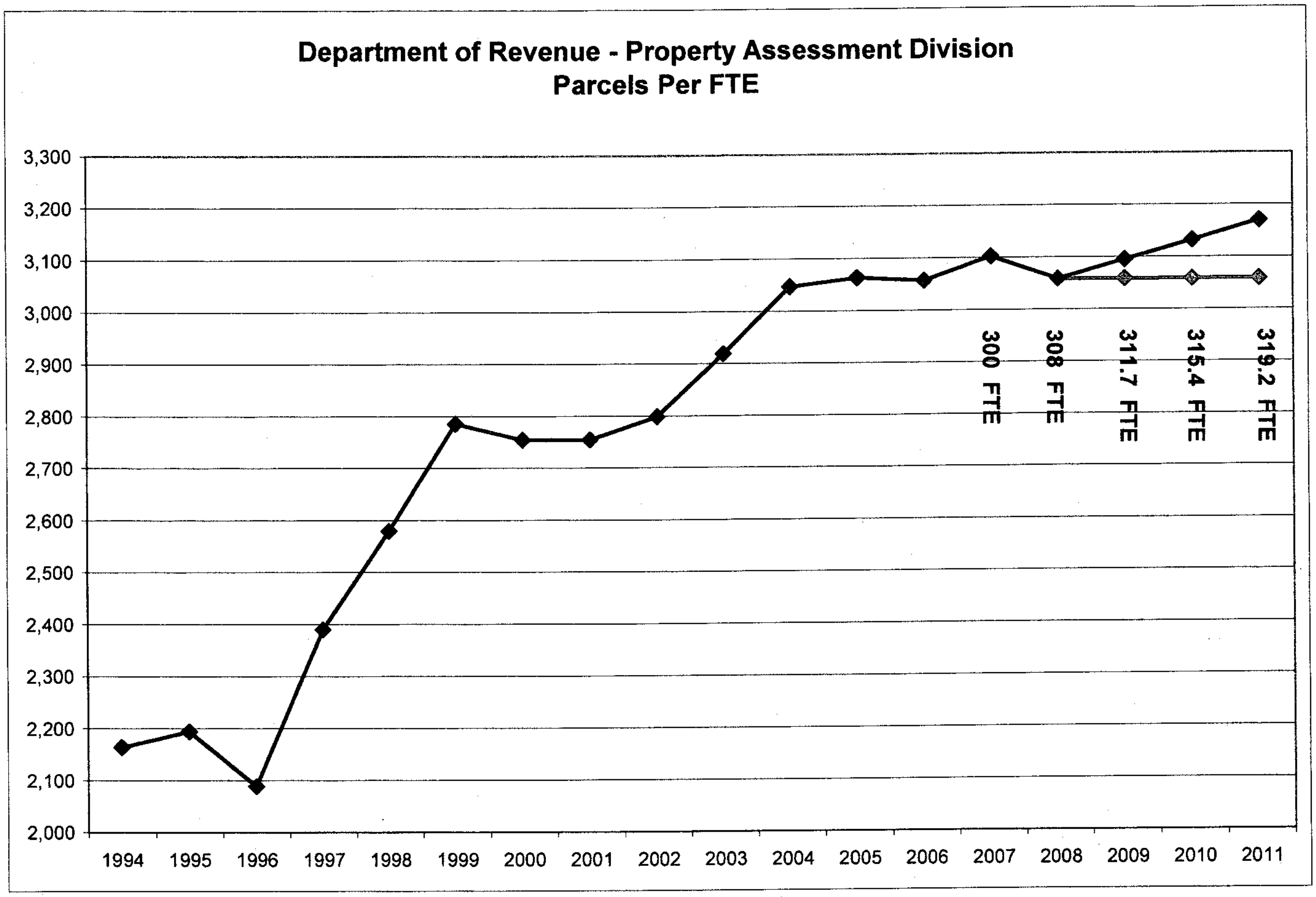
Personal Services
FY2010 = $ 335,630
FY2011 = $ 527,419
FY2012 = $ 719,208
FY2013 = $ 910,997

One Time Costs for additional personnel operating costs

$5,245 X 7 = $ 36,715 for FY 2010
$5,245 X 4 = $ 20,980 for FY 2011
$5,245 X 4 = $ 20,980 for FY 2012
$5,245 X 4 = $ 20,980 for FY 2013

Annual Costs:
$7,696 X 7 = $ 53,872 for FY2010
$7,696 X 11 = $ 84,656 for FY 2011
$7,696 X 15 = $ 115,440 for FY 2012
$7,696 X 19 = $ 146,224 for FY 2013

Operating Costs
FY 2010 - $ 90,587
FY 2011 - $105,636
FY 2012 - $136,420
FY 2013 - $167,204



<u>Reappraisal Field Reviews</u>

The compression of a growing workload into a shorter period of time will have an impact on staffing requirements. Our current appraisal staff is required to make field reviews of all improved properties (residential, commercial, agricultural/forest) once during the current reappraisal cycle (6 years). This would then require that 20% of the total improved properties be reviewed each year. However, in going to a 4-year reappraisal cycle, the requirement would increase to completing 25% per year – an increase in this workload requirement for each year of the cycle. During the first tax year of a reappraisal, no field reviews are completed as the January to June timeframe is spent completing the final determination of values and the July through December is spent completing the appeal process. Therefore the reappraisal field reviews would begin January 1, 2010 (second half FY2010) under this proposal.

Expanding this workload requirement would result in a workload increase as follows:

<u>FY2010 (2nd half) - Personal Services</u>

6-year - 495,686 improved parcels X 20% = 99,137 parcels annually
99,137 parcels X 30 minutes per parcel = 2,974,110 minutes of work
2,974,110 minutes ÷ 60 minutes/hour = 49,569 hours of work annually

4-year - 495,686 improved parcels X 25% = 123,922 parcels annually

123,922 parcels X 30 minutes per parcel = 3,717,660 minutes of work
3,717,660 minutes ÷ 60 minutes/hour = 61,961 hours of work annually

The increase in workload would require an increase in staffing to complete the work. Therefore, (4-year annual workload) – (6-year annual workload) = increase in workload

12,392 hours of increased work ÷ 1,760 effective work hours per FTE = 7 new FTE

7 FTE X	$34,560	= $ 241,920	plus benefits @ 17%	= $ 283,046
plus health insurance		7 FTE X $7,512		= $ 52,584
				$ 335,630

Funding is needed only for the second half of FY2010 for these FTE
$877,434 X 50% (6 months) = **$ 167,815**

FY2011 – Personal Services

6-year - 501,634 X 1.012 improved parcels X 20% = 101,531 parcels annually
101,531 parcels X 30 minutes per parcel = 3,045,930 minutes of work
3,045,930 minutes ÷ 60 minutes/hour = 50,766 hours of work annually

4-year - 501,634 X 1.012 improved parcels X 25% = 126,913 parcels annually
126,913 parcels X 30 minutes per parcel = 3,807,390 minutes of work
3,807,390 minutes ÷ 60 minutes/hour = 63,457 hours of work annually

The increase in workload would require an increase in staffing to complete the work. Therefore, (4-year annual workload) – (6-year annual workload) = increase in workload

12,691 hours of increased work ÷ 1760 effective work hours per FTE = 7.2 new FTE

7.2 FTE X	$34,560	= $ 248,832	plus benefits @ 17%	= $ 291,133
plus health insurance		7 FTE X	$7,512	= $ 52,584
				$ 343,717

FY2012 – Personal Services

6-year - 507,654 X 1.012 improved parcels X 20% = 102,749 parcels annually
102,749 parcels X 30 minutes per parcel = 3,082,470 minutes of work
3,082,470 minutes ÷ 60 minutes/hour = 51,375 hours of work annually

4-year - 507,654 X 1.012 improved parcels X 25% = 128,436 parcels annually
128,436 parcels X 30 minutes per parcel = 3,853,080 minutes of work
3,853,080 minutes ÷ 60 minutes/hour = 64,218 hours of work annually

The increase in workload would require an increase in staffing to complete the work. Therefore, (4-year annual workload) – (6-year annual workload) = increase in workload

12,843 hours of increased work ÷ 1760 effective work hours per FTE = 7.3 new FTE

7.3 FTE X $34,560	= $ 252,288	plus benefits @ 17%	= $ 295,177
plus health insurance	7 FTE X $7,512		= $ 52,584
			$ 347,761

FY2013 – Personal Services

6-year - 513,746 X 1.012 improved parcels X 20% = 103,982 parcels annually
103,982 parcels X 30 minutes per parcel = 3,119,460 minutes of work
3,119,460 minutes ÷ 60 minutes/hour = 51,991 hours of work annually

4-year - 513,746 X 1.012 improved parcels X 25% = 129,978 parcels annually
129,978 parcels X 30 minutes per parcel = 3,899,340 minutes of work
3,899,340 minutes ÷ 60 minutes/hour = 64,989 hours of work annually

The increase in workload would require an increase in staffing to complete the work. Therefore, (4-year annual workload) – (6-year annual workload) = increase in workload

12,998 hours of increased work ÷ 1760 effective work hours per FTE = 7.4 new FTE

7.4 FTE X $34,560	= $ 255,744	plus benefits @ 17%	= $ 299,220
plus health insurance	7 FTE X $7,512		= $ 52,584
			$ 351,804

Under a 4-Year Reappraisal Cycle, the completion of the reappraisal field reviews will occur throughout calendar year 2013 (i.e. July 1, 2013 through December 31, 2013 timeframe, which falls into FY2014).

Personal Services
FY 2010 - $ 167,815
FY 2011 - $ 343,717
FY 2012 - $ 347,761
FY 2013 - $ 351,804

Implement a Property Self Reporting Process

This request involves the use of a property self-reporting process. Self reporting of property changes is not a new concept - it was successfully used in two pilot counties (Hill County & Carbon County) in the 2000 tax year. The citizens of Montana will benefit from self-reporting in a number of ways. Self reporting will improve the accuracy of information gathered by the division. This improved accuracy will result in a reduced number of taxpayers who feel compelled to file property tax appeals on their property value. Second, it will provide assurance to other citizens that property has been accurately identified and is on the tax rolls correctly.

A significant amount of time is spent attempting to identify specific property characteristics that are pertinent to the valuation of each property. Examples of those characteristics include grade, quality of construction, style of construction, number of bedrooms, number of bathrooms, type of heat, basement area and finish, and other exterior features such as exterior walls, roof type and material, etc. Unfortunately, with the number of two wage-earner families or trespass/ingress difficulties, department staff are often times not able to gather information about the inside of structures, and sometimes the exterior of structures.

The concept of this proposal is two-fold and involves distributing pre-populated self-reporting forms to property owners. First, it is designed to help the department pinpoint property locations where new construction or remodeling has occurred, significantly reducing the time spent discovering new construction and remodeling that occurs under current practices - no building permits, etc. The valuation of smaller newly constructed items such as decks, patios, or porches could be accomplished through the self-reporting form and would not necessarily require an on-site inspection to value the property. Large new construction or remodeling projects would still require an on-site inspection by the appraiser, but the staff time spent identifying such projects would be significantly reduced. Second, it is designed to gather information about the internal construction of the structure. Again, that is important since staff is only able to make direct contact with property owners approximately 30% of the time. Having all the building characteristic information correct is important if the department wants the highest quality reappraisal. With limited resources, self-reporting is one of the tools the department needs to employ to help ensure that occurs. Finally, self-reporting is a process that engages citizens cooperatively in the tax system and expands knowledge and understanding among the public as to how property tax valuation occurs.

An ongoing and effective taxpayer information and education campaign would be advisable to encourage taxpayers to use the self-reporting forms. In addition, the department proposes to provide an option of taxpayers to return the information electronically through a secure online system similar or based on the department's online services for state taxes. For the maximum reappraisal benefit under a 4-year reappraisal cycle, the distribution of the self-reporting forms should occur annually for 25% of the properties in Montana. Done correctly with the involvement and participation of property owners, it will help taxpayers develop a better sense of ownership in the property tax system.

The estimated cost of mailing self-reporting forms to 25% of all residential (including mobile and manufacture homes) and agricultural property owners each year is as follows:

FY 2010 - $126,400 ($ .75 /self reporting form X 123,922 forms mailed + $ .45 /form X 74,353 returned forms)

FY2011 - $129,451 ($ .75 /self reporting form X 126,913 forms mailed + $ .45 /form X 76,148 returned forms)

FY2012 - $131,005 ($ .75 /self reporting form X 128,436 forms mailed + $ .45 /form X 77,062 returned forms)

FY 2013 - $132,578 ($ .75 /self reporting form X 129,978 forms mailed + $ .45 /form X 77,987 returned forms).

That includes a cover letter ($ .05), self-reporting forms ($ .32), postage ($ .38), and a postage paid return envelope ($ .45). The estimated cost of the self-reporting project assumes that, even with the compliance statutory language as proposed in the following paragraph, 60% of the taxpayers will choose to respond via return mail, 10% will use the online system, and 30% will not respond.

An educational/informational taxpayer program is estimated at $46,000 for FY 2010, FY 2011 and for FY 2012. Additional expenses for an advertising campaign include $4,047 each year in FY 2010 through FY2012 and $60,000 in FY 2013.

An integral part of the success of this option would be the inclusion of statutory language similar to the approach identified in 15-7-139 (7). That is an appeal board would not adjust the estimated value of the real or personal property unless the property owner or the property owner's agent accurately completed and returned the self reporting form to the department.

Operating Costs
FY2010 = $ 176,447
FY2011 = $ 179,498
FY2012 = $ 181,052
FY2013 = $ 192,578

Additional Travel/Vehicles Operating Costs

With a 4-year cycle, staff will be required to travel more extensively within the region to complete additional reappraisal field reviews. The travel requirement would increase over the current rate of travel for the 6-year cycle. (See reappraisal field review)

1,101,577 annual miles X 1.05 X $0.125 = $144,582 for each Fiscal Year 2010 through 2013

Additional Staff will require additional vehicles. Current ratio of appraisers to vehicle is 1.3 staff per vehicle. Vehicles are leased from DOT at $11.264 (sedan)/day plus $0.125 per mile, based on current vehicle use and staff average mileage 14,639 mile/appraiser X $0.70/mile = $10,250 X # new staff

7 ÷ 1.3 staff per vehicle = $55,192 = FY2010
7.2 ÷ 1.3 staff per vehicle = $56,769 = FY2011
7.3 ÷ 1.3 staff per vehicle = $57,558 = FY2012
7.4 ÷ 1.3 staff per vehicle = $58,346 = FY2013

Operating Costs
FY2010 = $ 199,774
FY2011 = $ 201,351
FY2012 = $ 202,140
FY2013 = $ 202,928

One Time Costs for additional personnel operating costs

Cameras	$ 130	
GPS	$ 215	
Cubicle work area, counter, bookcase, walls, 2 drawer cabinet	$2,500	
PC & Printer	$1,600	
Chair	$ 350	
Calculator	$ 100	
Computer/Phone (cost of duplex jack)	$ 350	
Total one time costs	$5,245 X 7	= $ 36,715 for FY 2010

Annual Costs:

PC Replacement (1/4 replacement)	$ 400	
Network costs	$ 960	
Supplies	$ 200	
Phone (Basic rate $336)+(Long distance $100)	$ 436	
Rent Non-DOA Building (250 sq. ft. x $15.00)	$5,500	
Training	$ 200	
Total annual costs	$7,696 X 7	= $ 53,872 for FY 2010
	$7,696 X 7.2	= $ 55,411 for FY 2011
	$7,696 X 7.3	= $ 56,181 for FY 2012
	$7,696 X 7.4	= $ 56,950 for FY 2013

Operating Costs
FY2010 = $ 90,587
FY2011 = $ 55,411
FY2012 = $ 56,181
FY2013 = $ 56,950

REAPPRAISAL INTERIM YEAR - TIME TREND ADJUSTMENTS

The national standard for reappraisal cycle property reviews is at least one on-site property visit each cycle. Interim year valuation adjustments are also accepted standards. This approach contemplates a reappraisal cycle duration as determined by the Montana legislature, with a base year valuation date, and interim year valuation adjustments of residential property during the cycle to help eliminate "sticker shock", to provide a mechanism to also acknowledge "downturns" in the market, and to help provide equalization.

The Department would contract with an outside expert to perform sales/assessment ratio studies and time trend analyses by market area and recommend interim year residential property valuation adjustments for each market area.

FY2010 (last half) – Operating = $75,000
FY2011 (last half) – Operating = $75,000
FY2012 (last half) – Operating = $75,000
FY2013 (last half) – Operating = $75,000

Under the current 6-year reappraisal of all real property and personal property homes are only printed in the first year of the reappraisal cycle. Instead of printing all assessments once every 6 years, they would be printed every 4 years. (Assessments mailed by 6/30/2014). Making annual valuation adjustments to residential property as a result of sales/assessment ratio studies – time trending analyses means assessment notices will also have to be mailed in Fiscal Years 2010, 2011, 2012, and 2013. The costs of that effort are:

FY2010 (last half) – Operating	
Printing of Assessments	$0.32 X 454,795 = $145,535
Mailing Assessments	$0.38 X 454,795 = $172,820
Total	$318,355

FY2011 (last half) – Operating	
Printing of Assessments	$0.32 X 454,795 = $145,535
Mailing Assessments	$0.38 X 454,795 = $172,820
Total	$318,355

FY2012 (last half) – Operating	
Printing of Assessments	$0.32 X 454,795 = $145,535
Mailing Assessments	$0.38 X 454,795 = $172,820
Total	$318,355

FY2013 (last half) – Operating	
Printing of Assessments	$0.32 X 454,795 = $145,535
Mailing Assessments	$0.38 X 454,795 = $172,820
Total	$318,355

FOUR YEAR REAPPRAISAL CYCLE

(Using Oblique Imagery)
Purchase in FY2010, FY2011, FY2012 and FY2013
Includes New Self Reporting System

Note: Four Year Cycle may cause problems in determining timely mitigation strategies by the Legislature

PERSONAL SERVICES

FY2010 = $ 503,445
FY2011 = $ 871,135
FY2012 = $ 701,300
FY2013 = $ 799,805

OPERATIONAL EXPENSES

FY2010 = $ 5,988,595
FY2011 = $ 5,973,095
FY2012 = $ 5,954,460
FY2013 = $ 6,414,375

TOTAL EXPENSES (OVER CURRENT LEVEL)

FY2010 = $ 6,492,040
FY2011 = $ 6,844,230
FY2012 = $ 6,655,760
FY2013 = $ 7,214,180

ADDITIONAL EXPENSES FOR INTERIM YEAR VALUATION ADJUSTMENTS

FY2010 = $ 393,355
FY2011 = $ 393,355
FY2012 = $ 393,355
FY2013 = $ 393,355

SUMMARY – OPTION 1 – (4-YEAR REAPPRAISAL CYCLE)

- 4-Year Reappraisal Cycle
- Cycle begins 1/1/2010
- Cycle ends 12/31/2013
- Base year for the reappraisal cycle = 1/1/2013
- Reappraisal values effective for Tax Year 2014

This option includes:

- The annual purchase and use of oblique imagery.
- A contract to determine market model time trend adjustments.
- A contract to perform a capitalization rate study for commercial property valuations.
- Requiring submission of Income and Expense Information from taxpayers.
- Conducting a housing-market analysis in FY2014.
- Mailing of agricultural and forest land ownership and use maps to taxpayers in FY2014.
- Using a self-reporting process.
- Meetings with an Agricultural Land Valuation Advisory Committee in FY2013.
- Acquisition of new aerial photography for agricultural and forest land reappraisal – to detect changes in use in FY2010, FY2011, FY2012 and FY2013.
- Meetings with a Forest Land Valuation Advisory Committee in FY2013.
- A contract to update forest land information in FY2013
- A contract to update forest land income information in FY2013.
- DNRC to update forest land expenses in FY2013.
- More extensive field travel by staff to complete reappraisal field reviews in FY2010, FY2011, FY2012 and FY2013.
- Additional vehicles for additional staff in FY2010, FY2011, FY2012 and FY2013.
- Additional personnel costs (one-time and annual) for new staff in FY2010, FY2011, FY2012 and FY2013.
- Taxpayer education expenses in FY2010, FY2011, FY2012, and FY2013.
- Assessment notices to all Class 3, Class 4 and Class 10 property owners mailed in FY2014 (1st half).

Number of Additional FTE (above current level) required for this option:

- 7 appraisers for FY2010 to pick up new construction and use changes, plus
- 4 additional appraisers for FY2011 to pick up new construction and use changes, plus
- No additional appraisers for FY2012 to pick up new construction and use changes, plus
- No additional appraisers for FY2013 to pick up new construction and use changes.

- 7 appraisers to complete reappraisal field reviews each year in FY2010 & FY2011, plus
- 1 half-time Management Analyst to complete new cost tables in FY2013.

Reappraisal Interim Year – Time Trend Adjustments:

- A contract to perform sales/assessment ratio studies – time trend analyses and recommend interim year valuation adjustments for residential property.
- Annual assessment notices for residential property in FY2010, FY2011, FY2012, and FY2013

4-YEAR REAPPRAISAL CYCLE (WITH OBLIQUE IMAGERY)
COSTS OVER CURRENT LEVEL THAT WOULD BE ASSOCIATED WITH A 4-YEAR CYCLE

Assumptions

General

- The new cycle would start 1/1/2010
- Budget authority would be provided by the 2009 Legislature
  - Funding would be available beginning 7/1/2009 (FY2010)
- The new 4-year cycle would end on 12/31/2013
- New reappraisal values would be effective for tax year 2014
- Under the current 6-year reappraisal all real property and personal property mobile homes are only printed in the first year of the reappraisal. In subsequent years only changes are printed and mailed. Instead of printing all assessments once every 6 years, they would be printed once every 4 years. (Assessments mailed by 6/30/2014). The change in length of the cycle will require the Department to mail out assessments to all property owners more often than is done currently. This will result in a higher cost, but under a new 4-year cycle the increased costs would not be realized until FY2014.

FY2014 Operating Costs		
Printing of Assessments	$0.32 X 634,781 =	$203,130
Mailing Assessments	$0.38 X 634,781 =	$241,216
Total		**$444,346**

- A mitigation strategy would be implemented by the legislature in order to maintain taxable value neutrality for each 4-year reappraisal cycle – this would cause no dramatic increase in appeals or requests for informal property reviews
- Taxpayer Education efforts would continue. Each reappraisal cycle the Department undertakes a program to educate the public about the cyclic reappraisal of Classes 3, 4 and 10 properties. The public education program includes advertisements in newspapers and public service announcements (PSA) on radio and television. The estimated FY2014 cost would be $ 106,000.

FY2014 Operating Costs
$ 106,000

- A 1.2% increase in parcels per year

Agricultural/Forest Land Reappraisal

- National Agriculture Imagery Program (NAIP) – a new flight of aerial photography would be required in order to maintain agricultural and forest land use changes current. The Aerial Photography Field Office (APFO) is the primary source of aerial imagery for the United States Department of Agriculture. Among the other programs administered by the APFO is the National Agriculture Imagery Program (NAIP). NAIP acquires imagery during the agricultural growing seasons in the continental U.S. A primary goal of the NAIP program is to enable availability of digital orthophotography within a year of acquisition.

  To accomplish the goals of a 4-year appraisal cycle, NAIP imagery would need to be acquired. After acquisition, the latest NAIP imagery is compared to the previous year's imagery. Coupled with other available information, the comparison process will allow the Department to identify changes in use associated with agricultural lands.
  The cost of acquiring statewide NAIP imagery is estimated at $ 30,000 each year of the cycle. Typically the cost of the latest imagery is shared between various state agencies. As part of the cost-share approach to acquiring NAIP imagery, the DOR cost would be $ 30,000 annually.

  Operating Costs
  FY2010 – $ 30,000
  FY2011 – $ 30,000
  FY2012 – $ 30,000
  FY2013 – $ 30,000

- Farm Services Agency (FSA) – annual updates of Certified Land Unit (CLU) line work delineating boundaries of farmland from grazing land would be required.

- Natural Resources Conservation Service (NRCS) soil survey updates would be required annually. Any updated soil survey information is essential in maintaining the integrity of the system used in valuing agricultural land.

- Energy costs for irrigated land would be collected every 4 years if the 5 agricultural land use type system continues.

- Continuation of using the 5 agricultural land use type system for valuing agricultural land (grazing, non-irrigated summer fallow farm land, non-irrigated continuously cropped farm land, non-irrigated continuously cropped hay land, and tillable irrigated farm land).

- The influence of the current Farm Bill on farm land income would be determined.

- Mailing agricultural land and forest land ownership and use maps. The Department will mail to each agricultural and/or forest land owner pertinent appraisal information. The information will include maps of the individuals' properties, instructions and other information to assist the individual in determining the accuracy of our reappraisal efforts. Create two sets of township maps for review purposes; 1 set for manual review/corrections and the 2nd corrected set for county office use = $40,000 in FY2014. This cost would be incurred in the last year of the 4-year cycle.

FY2014 (1st Half) - Operating Costs
$40,000

The department would mail maps to each individual landowner for their review and correction prior to the end of the cycle. Along with the cost of producing the maps and mailing them to the individuals, a public relations campaign would be undertaken to notify and explain the map delivery. The cost estimates for the agricultural/forest land map mailings are:

FY2014 (2nd Half) - Operating Costs

Create maps	-	$34,585
Mail maps	-	$19,250
Public information	-	$39,357
		$93,190

These costs would be incurred in the last year of the 4-year cycle.

- Meetings of the Governor's Agricultural Land Valuation Advisory Committee will continue. Each reappraisal cycle the Governor appoints individuals knowledgeable about farm practices and farm economics. The Committee reviews information relevant to the determination of value of agricultural lands. If the Committee so chooses, they can make recommendations to the Department for changes in the practices of determining the value of agricultural land.

  The Committee would need to meet prior to the completion of the reappraisal of agricultural lands. For a nine (9) member Committee, the estimated cost for each meeting is approximately $4,600 in FY2013. This cost would be incurred during the last year of the 4-year cycle.

FY2013 Operating Costs
4 meetings @ $4,600 **$ 18,400**

- Meetings of the Governor's Forest Land Advisory Committee will be held. Each reappraisal cycle the Governor will appoint individuals knowledgeable about forest land productivity and forest land economics. The Committee reviews information relevant to the determination of value of forest lands. If the Committee so chooses, they can make recommendations to the Department for changes in the practices of determining the value of forest land.

The Committee would need to meet prior to the completion of the reappraisal of forest lands. For a nine (9) member Committee, the estimated cost for each meeting is approximately $4,600 in FY2013. This cost would be incurred during the last year of the 4-year cycle.

<u>FY2013 Operating Costs</u>
4 meetings @ $4,600 **$ 18,400**

- The department will contract with someone to create or update the forest land information. In prior cycles, that has been the University of Montana – School of Forestry and Conservation. Estimated costs for contracted services are approximately $200,000 based on recent contract information. This cost would be anticipated to occur during the last year of the 4-year cycle.

<u>FY2013 Operating Costs</u>
$ 200,000

- Forest land income would continue to be provided by the University of Montana, retired professor Dr. David Jackson or someone of equal stature, once every 4 years. Costs associated with this contract would be anticipated to occur during FY2013 of the 4-year cycle.

<u>FY2013 (1st Half) - Operating Costs</u>
$ 10,000

- Forest land expenses would continue to be provided by the Department of Natural Resources and Conservation (DNRC) every 4 years. The cost of acquiring and compiling this information would be anticipated to occur the 4th year of the 4-year cycle.

Residential/Commercial Property

- The DOR would use current technology to help accomplish the reappraisal of residential and commercial properties every 4 years
  - GPS – Global Positioning System
  - Self-reporting forms

- The Department would contract with an expert for the determination of the time trend adjustments needed for market modeling.

<u>FY2013 (2nd Half) – Operating</u>
$ 60,000

- Use oblique imagery in select areas of Montana in conjunction with other state agencies and local governments.

    - In order to accomplish its Constitutional charge to provide an equitable property tax system, the Department of Revenue, Property Assessment Division needs access to the most current technology available. That's especially true in light of its inability to secure budget authority to hire additional appraisal staff. Possibly the most promising technology is oblique imagery coupled with change resolution software. It's currently used in 48 states – Montana is only one of two states that have not yet availed itself of oblique imagery technology. The reported success of its application in other states clearly suggests it has great application for Montana. In addition, the "*Standard on Property Tax Policy* of the International Association of Assessing Officers (IAAO, 2004) and section 4.7 of its *Standard on Mass Appraisal of Real Property* (2002) calls for annual reassessments with comprehensive reappraisals involving an on-site inspection of every property at least every six years unless other change-detecting technologies, such as oblique aerial imagery are used.

    - Oblique aerial imagery is the technical term used to describe an aerial photograph that is taken at an angle. That allows staff the ability to view features, such as a house, building, industrial facility from multiple angles and directions. And while staff will be able to determine number of stories, structural height, square footage etc., the resolution will not result in privacy invasion issues. In fact, there is currently and will be much greater resolution and 3-D ability that already exists with Google Earth and Microsoft Visual Earth software used by millions to locate and view property every day than there will be with this application. In fact that 3-D, street level imagery view currently exists for property in Billings, Montana. With respect to any potential privacy concerns, the imagery will actually help resolve trespass concerns that taxpayers currently have. This type of imagery will also provide the capability to quickly determine acreages associated with land use change or natural disasters, such as forest fires. Use of oblique imagery has application for many other areas of state and local government. In addition to property appraisals and assessments, examples include 911 Public Safety, Law Enforcement, Homeland Security, GIS applications, Fire Departments, Planning, and Transportation.

    - The department would propose to contract with a firm to be determined via the RFP process for the annual purchase of orthogonal and oblique imagery for all of the following high growth counties: Cascade, Flathead, Gallatin, Jefferson, Lake, Lewis & Clark, Madison, Missoula, Park, Ravalli, Silver Bow, and Yellowstone Counties. The intent would be to use "Change Analysis" software to detect and measure, as needed, changes in buildings/structures and land uses. Based on a flight conducted in Yellowstone County, it's clear that this is a key technology that will allow the Division to locate and determine changes in improvements in lieu of going on-site or canvassing the entire county. For significant differences or changes, it will allow the Division to focus its limited resources on specific areas or structures. Also of great importance is that it will allow the Division to reduce or discontinue additional staffing requests from the Legislature for the foreseeable future.

- The Property Assessment Division proposes utilizing oblique imagery as herein described. This proposal contemplates total private land coverage of the following counties - Cascade, Flathead, Gallatin, Jefferson, Lake, Lewis & Clark, Madison, Missoula, Park, Ravalli, Silver Bow, and Yellowstone. That type of coverage would allow staff to ensure improvements and land use changes in remote locations, gated communities, and in areas that are most subject to trespass issues are valued and assessed. Those are the areas that are typically most problematic for staff. This option contemplates one flight each year. Based on information received from firms that provide oblique aerial imagery, the costs for this option are estimated at $ 5,401,200 per year.

- While this is currently a stand alone proposal, it's highly likely that other state agencies and local governments may wish to participate. If that's the direction the legislature would like to head and since the Department of Administration's Geographic Information Officer (GIO) is currently involved in securing those types of partnerships and funding for other types of imagery (i.e. NAIP), that individual might be a logical place for securing that type of involvement for oblique aerial imagery.

Oblique Aerial Imagery

- **Estimated Costs by County –**

- Cascade County 2,234 square miles @ $350/square mile = $ 781,900
- Flathead County 1,267 square miles @ $350/square mile = $ 443,450
- Gallatin County 1,401 square miles@ $350/square mile = $ 490,350
- Jefferson County 727 square miles @ $350/square mile = $ 254,450
- Lake County 792 square miles@ $350/square mile = $ 277,200
- Lewis & Clark County 1,555 square miles @ $350/square mile = $ 544,250
- Madison County 1,710 square miles @ $350/square mile = $ 598,500
- Missoula County 1,189 square miles @ $350/square mile = $ 416,150
- Park County 1,261 square miles @ $350/square mile = $ 441,350
- Ravalli County 592 square miles @ $350/square mile = $ 207,200
- Silver Bow County 518 square miles @ $350/square mile = $ 181,300
- Yellowstone County 2,186 square miles @ $350/square mile = $ 765,100

- **Total: 15,432 square miles @ $350/square miles = $ 5,401,200**

- **Operating Expenses**
- **FY2010 – $5,401,200**
- **FY2011 – $5,401,200**
- **FY2012 – $5,401,200**
- **FY2013 – $5,401,200**

- The historical process for sales verifications would continue. That is, for a 4-year reappraisal cycle, sales would be verified during the first, second, and third year of the cycle, with active sales verifications being suspended for the fourth year. However, if it is determined for the proposed 4-year cycle that the sales for the first 6 months of the final year of the cycle should be verified and made a part of the market modeling process, there would be a cost increase over current level for accomplishing such analysis. This additional effort would be focused on the 7 largest counties in the state, based on the Department's current experience in verifying and analyzing the first 6 months of 2008 sales for the current reappraisal cycle. This additional work effort, if determined to be necessary for future reappraisal cycles would impact workload and staffing requirements for the first 6 months of 2013. Those increased costs for FY2013 are calculated as follows:

FY2013 (2nd half) - Personal Services

6,240 sales parcels X 1.5 hours = 9,360 hours of work
9,360 hours of increased work ÷ 1760 effective work hours per FTE = 5.3 new FTE

5.3 FTE (Appraisers) X	$34,560 = $ 183,168	plus benefits @ 17%	= $ 214,307
plus health Insurance	= 5 X $7,512		= $ 37,560
			$ 251,867

FY2013 One Time Costs for additional personnel operating costs

Cameras	$ 130
GPS	$ 215
Cubicle work area, counter, bookcase, walls, 2 drawer cabinet	$2,500
PC & Printer	$1,600
Chair	$ 350
Calculator	$ 100
Computer/Phone (cost of duplex jack)	$ 350
Total one time costs	$5,245 X 5.3 = $27,799
= $ 55,597	

FY2013 (2nd half) - Annual Costs:

PC Replacement (1/4 replacement)	$ 400
Network costs	$ 960
Supplies	$ 200
Phone (Basic rate $336)+(Long distance $100)	$ 436
Rent Non-DOA Building (250 sq. ft. x $15.00)	$5,500
Training	$ 200

Total annual costs $7,696 X 5.3 = $ 40,789

FY 2013 - Operating Costs = $68,588

- The Department of Revenue conducted housing market analyses for the current 6-year reappraisal cycle. That consisted of holding facilitated focus group meetings at 18 locations throughout Montana and contracting with experienced housing market professionals for additional analyses. Those analyses were quite productive, insightful and worthy of continued consideration for each reappraisal cycle. Additional budget authority to cover the facilitated meetings and the contract for service expenses are included. The meeting costs are estimated at $ 32,900 which includes (air travel to 10 select sites – 1 flight per 2 sites @ $1500 per meeting; facilitator @ $ 20,000; per diem @ 100/meeting; meeting refreshments @ $200/meeting). Based on our experience in 2008, contracting for out-side housing market analyses is estimated at $ 50,000.

FY2014 (1st Half) - Operating Costs
$ 50,000

- The Department would contract with an expert to perform a capitalization rate study for commercial property structure types. Those capitalization rates would be used for the valuation of commercial properties.

FY2013 (2nd Half) – Operating Costs
$ 75,000

- Require the submission of income & expense information on commercial properties. The Income Approach is the preferred approach for the valuation of commercial property. That approach involves identifying the gross income of a property, subtracting justified expenses to determine a net operating income and capitalizing that income into an estimate of value through use of a capitalization rate. An integral part of that approach is securing income and expense information. The Department annually requests income and expense information from commercial property owners. Even though that information is held confidential by the Department of Revenue, it is not currently required by law. As a result, historically the return rate has been low. If the Department is to provide a fair and equitable property tax system to the citizens of Montana, the Department should be allowed, similar to other taxing jurisdictions such as Calgary, Alberta, to require the submission of income and expense information. This option contemplates that requirement. This option would include statutory language similar to the approach identified in 15-7-139 (7). That is an appeal board would not adjust the estimated value of the real or personal property unless the property owner or the property owner's agent accurately completed and returned the income and expense reporting form to the department. Since the cost of creating and mailing income and expense forms is currently contained in the "base" of the Department's budget, no additional funding is required. As with the self reporting requirement, the department proposes to provide an option for taxpayers to return the information electronically through a secure online system similar or based on the department's online services for state taxes.

- Cost tables will be updated. Under the current 6-year cycle, the cost tables are updated every 6 years, this would occur every 4 years with a shortened cycle. Update of cost tables includes collection of the cost to construct all structure types, analysis of the costs on a statewide basis, and update of actual cost tables in ORION. The collection and compilation of information along with the table update requires additional staffing over a 6 month timeframe (Jan. through June 2013) in FY2013.

FY2013 – Personal Services
Temporary Staff (1) 1040 hrs @ $19.73/hour = $20,520 (Based on the level of pay a temporary Management Analyst)

Personal Services
FY2013 - $20,520

The implementation of a 4-year reappraisal cycle, given the stated assumptions, would result in annual cost increases to the DOR in order to enable completion of the reappraisal in 4 years rather than in the 6 years as provided for in current law. Those additional costs for the upcoming FY2010/FY2011 Biennium and FY2012/FY2013 Biennium are discussed and shown below.

Provide Additional Staff to the Property Assessment Division

Identifying and valuing new construction and land use changes is linked directly to parcel growth in Montana. During the 2007 legislative session, the Department requested additional staff - 24 FTE in FY 2008 and an additional 8.00 FTE in FY 2009. The proposal addressed the fact that staff had been reduced by 17% in recent years while workload has increased by over 24%. In 1994 the workload level was 2,163 parcels per FTE. As of 2007, the workload had climbed to 3,102 parcels per FTE. Additional FTE provided by the 2007 legislature reduced the workload to 3,058 parcels per FTE in 2008. Though growth in Montana continues, the legislature has spoken. It determined that the 2008 workload level of the Property Assessment Division was acceptable. With this request we are honoring that decision. The Division is not requesting additional staff to reduce the 3,058 parcels per FTE level. Rather it is requesting additional staff to maintain that level – nothing more. Before 2005, the rate of growth was 2.5%, while between 2006 and 2007 it slowed to 1.5%. The parcel growth rate from 2007 to 2008 slowed even further to 1.2% - that's much lower than prior years. For this option, the current growth rate of 1.2% was used to extrapolate parcel counts in 2009, 2010, 2011 and 2012. As the following line graph displays, in order to maintain the 2008 workload level taking into consideration the increased parcels that will occur through fiscal year 2013, the Division needs 19 additional FTE (7 FTE in FY2010, 4 FTE in FY2011, 4 FTE in FY2012 and 4 FTE in FY 2013). However, with the use of Oblique Imagery, no new appraisers will be required in Fiscal Year 2012 and 2013.

FY2010 7 FTE X $34,560	= $ 241,920	plus benefits @ 17%	= $	283,046
plus health insurance	7 FTE X $7,512		= $	52,584
			$	**335,630**
FY2011 11 FTE X $34,560	= $ 380,160	plus benefits @ 17%	= $	444,787
plus health insurance	11 FTE X $7,512		= $	82,632
			$	**527,419**

FY2012 - No additional FTE

FY2013 - No additional FTE

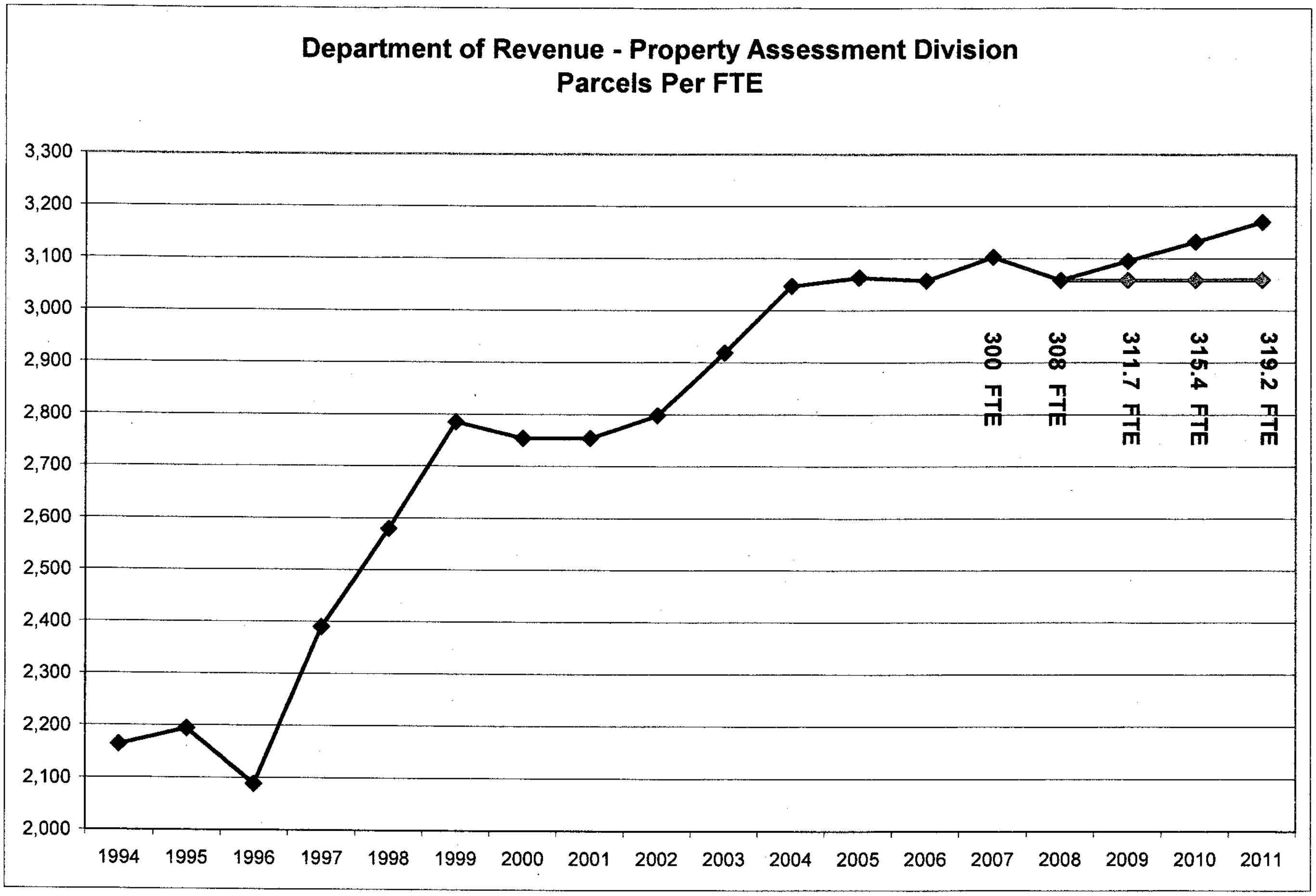
Personal Services
FY2010 = $ 335,630
FY2011 = $ 527,419
FY2012 = $ 527,419
FY2013 = $ 527,419

One Time Costs for additional personnel operating costs

$5,245 X 7 = $ 36,715 for FY 2010
$5,245 X 4 = $ 20,980 for FY 2011

Annual Costs:
$7,696 X 7 = $ 53,872 for FY2010
$7,696 X 11 = $ 84,656 for FY 2011
$7,696 X 11 = $ 84,656 for FY 2012
$7,696 X 11 = $ 84,656 for FY 2013

Operating Costs
FY 2010 - $ 90,587
FY 2011 - $105,636
FY 2012 - $ 84,656
FY 2013 - $ 84,656



Reappraisal Field Reviews

The compression of a growing workload into a shorter period of time will have an impact on staffing requirements. Our current appraisal staff is required to make field reviews of all improved properties (residential, commercial, agricultural/forest) once during the current reappraisal cycle (6 years). This would then require that 20% of the total improved properties be reviewed each year. However, in going to a 4-year reappraisal cycle, the requirement would increase to completing 25% per year – an increase in this workload requirement for each year of the cycle. During the first tax year of a reappraisal, no field reviews are completed as the January to June timeframe is spent completing the final determination of values and the July through December is spent completing the appeal process. Therefore the reappraisal field reviews would begin January 1, 2010 (second half FY2010) under this proposal. The Property Assessment Division estimates that it will take two years for oblique imagery to impact reappraisal reviews. In FY2012 and FY2013, the Department estimates that due to the efficiency of oblique imagery, the field reviews could be accomplished with existing staff.

Expanding this workload requirement would result in a workload increase as follows:

FY2010 (2nd half) - Personal Services

6-year - 495,686 improved parcels X 20% = 99,137 parcels annually
99,137 parcels X 30 minutes per parcel = 2,974,110 minutes of work
2,974,110 minutes ÷ 60 minutes/hour = 49,569 hours of work annually

4-year - 495,686 improved parcels X 25% = 123,922 parcels annually
123,922 parcels X 30 minutes per parcel = 3,717,660 minutes of work
3,717,660 minutes ÷ 60 minutes/hour = 61,961 hours of work annually

The increase in workload would require an increase in staffing to complete the work. Therefore, (4-year annual workload) – (6-year annual workload) = increase in workload

12,392 hours of increased work ÷ 1,760 effective work hours per FTE = 7 new FTE

7 FTE X	$34,560	= $ 241,920	plus benefits @ 17%	= $ 283,046
plus health insurance		7 FTE X $7,512		= $ 52,584
				$ 335,630

Funding is needed only for the second half of FY2010 for these FTE
$877,434 X 50% (6 months) = **$ 167,815**

FY2011 – Personal Services

6-year - 501,634 X 1.012 improved parcels X 20% = 101,531 parcels annually
101,531 parcels X 30 minutes per parcel = 3,045,930 minutes of work
3,045,930 minutes ÷ 60 minutes/hour = 50,766 hours of work annually

4-year - 501,634 X 1.012 improved parcels X 25% = 126,913 parcels annually
126,913 parcels X 30 minutes per parcel = 3,807,390 minutes of work
3,807,390 minutes ÷ 60 minutes/hour = 63,457 hours of work annually

The increase in workload would require an increase in staffing to complete the work. Therefore, (4-year annual workload) – (6-year annual workload) = increase in workload

12,691 hours of increased work ÷ 1760 effective work hours per FTE = 7.2 new FTE

7.2 FTE X	$34,560	= $ 248,832	plus benefits @ 17%	= $ 291,133
plus health insurance		7 FTE X	$7,512	= $ 52,584
				$ 343,717

FY2012 – Personal Services

6-year - 507,654 X 1.012 improved parcels X 20% = 102,749 parcels annually
102,749 parcels X 30 minutes per parcel = 3,082,470 minutes of work
3,082,470 minutes ÷ 60 minutes/hour = 51,375 hours of work annually

4-year - 507,654 X 1.012 improved parcels X 25% = 128,436 parcels annually
128,436 parcels X 30 minutes per parcel = 3,853,080 minutes of work

3,853,080 minutes ÷ 60 minutes/hour = 64,218 hours of work annually

The increase in workload would require an increase in staffing to complete the work. Therefore, (4-year annual workload) – (6-year annual workload) = increase in workload

12,843 hours of increased work ÷ 1760 effective work hours per FTE = 7.3 new FTE

7.3 FTE X $34,560	= $ 252,288	plus benefits @ 17%		= $ 295,177
plus health insurance		7 FTE	X $7,512	= $ 52,584
				$ 347,761

Funding is needed only for the first half of FY2012 (i.e July thru December of 2011) for these FTE

$347,761 X 50% (6 months) = **$ 173,880**

Personal Services

FY 2010 - $ 167,815
FY 2011 - $ 343,717
FY 2012 - $ 173,880
FY 2013 - $ 0

Implement a Property Self Reporting Process

This request involves the use of a property self-reporting process. Self reporting of property changes is not a new concept - it was successfully used in two pilot counties (Hill County & Carbon County) in the 2000 tax year. The citizens of Montana will benefit from self-reporting in a number of ways. Self reporting will improve the accuracy of information gathered by the division. This improved accuracy will result in a reduced number of taxpayers who feel compelled to file property tax appeals on their property value. Second, it will provide assurance to other citizens that property has been accurately identified and is on the tax rolls correctly.

A significant amount of time is spent attempting to identify specific property characteristics that are pertinent to the valuation of each property. Examples of those characteristics include grade, quality of construction, style of construction, number of bedrooms, number of bathrooms, type of heat, basement area and finish, and other exterior features such as exterior walls, roof type and material, etc. Unfortunately, with the number of two wage-earner families or trespass/ingress difficulties, department staff are often times not able to gather information about the inside of structures, and sometimes the exterior of structures.

The concept of this proposal is two-fold and involves distributing pre-populated self-reporting forms to property owners. First, it is designed to help the department pinpoint property locations where new construction or remodeling has occurred, significantly reducing the time spent discovering new construction and remodeling that occurs under current practices - no building permits, etc. The valuation of smaller newly constructed items such as decks, patios, or porches could be accomplished through the self-reporting form and would not necessarily require an on-site inspection to value the property. Large new construction or remodeling projects would still require an on-site inspection by the appraiser, but the staff time spent identifying such projects would be significantly reduced. Second, it is designed to gather information about the internal construction of the structure. Again, that is important since staff is only able to make direct contact with property owners approximately 30% of the time. Having all the building characteristic information correct is important if the department wants the highest quality reappraisal. With limited resources, self-reporting is one of the tools the department needs to employ to help ensure that occurs. Finally, self-reporting is a process that engages citizens cooperatively in the tax system and expands knowledge and understanding among the public as to how property tax valuation occurs.

An ongoing and effective taxpayer information and education campaign would be advisable to encourage taxpayers to use the self-reporting forms. In addition, the department proposes to provide an option of taxpayers to return the information electronically through a secure online system similar or based on the department's online services for state taxes. For the maximum reappraisal benefit under a 4-year reappraisal cycle, the distribution of the self-reporting forms should occur annually for 25% of the properties in Montana. Done correctly with the involvement and participation of property owners, it will help taxpayers develop a better sense of ownership in the property tax system.

The estimated cost of mailing self-reporting forms to 25% of all residential (including mobile and manufacture homes) and agricultural property owners each year is as follows:

FY 2010 - $126,400 ($ .75 /self reporting form X 123,922 forms mailed + $ .45 /form X 74,353 returned forms)
FY2011 - $129,451 ($ .75 /self reporting form X 126,913 forms mailed + $ .45 /form X 76,148 returned forms)
FY2012 - $131,005 ($ .75 /self reporting form X 128,436 forms mailed + $ .45 /form X 77,062 returned forms)
FY 2013 - $132,578 ($ .75 /self reporting form X 129,978 forms mailed + $ .45 /form X 77,987 returned forms).

That includes a cover letter ($ .05), self-reporting forms ($ .32), postage ($ .38), and a postage paid return envelope ($ .45). The estimated cost of the self-reporting project assumes that, even with the compliance statutory language as proposed in the following paragraph, 60% of the taxpayers will choose to respond via return mail, 10% will use the online system, and 30% will not respond.

An educational/informational taxpayer program is estimated at $46,000 for FY 2010, FY 2011 and for FY 2012. Additional expenses for an advertising campaign include $4,047 each year in FY 2010 through FY2012 and $60,000 in FY 2013.

An integral part of the success of this option would be the inclusion of statutory language similar to the approach identified in 15-7-139 (7). That is an appeal board would not adjust the estimated value of the real or personal property unless the property owner or the property owner's agent accurately completed and returned the self reporting form to the department.

Operating Costs
FY2010 = $ 176,447
FY2011 = $ 179,498
FY2012 = $ 181,052
FY2013 = $ 192,578

Additional Travel/Vehicles Operating Costs

With a 4-year cycle, staff will be required to travel more extensively within the region to complete additional reappraisal field reviews. The travel requirement would increase over the current rate of travel for the 6-year cycle. (See reappraisal field review)

1,101,577 annual miles X 1.05 X $0.125 = $144,582 for each Fiscal Year 2010 through 2013

Additional Staff will require additional vehicles. Current ratio of appraisers to vehicle is 1.3 staff per vehicle. Vehicles are leased from DOT at $11.264 (sedan)/day plus $0.125 per mile, based on current vehicle use and staff average mileage 14,639 mile/appraiser X $0.70/mile = $10,250 X # new staff

7 ÷ 1.3 staff per vehicle = $55,192 = FY2010
7.2 ÷ 1.3 staff per vehicle = $56,769 = FY2011
7.3 ÷ 1.3 staff per vehicle = $57,558 = FY2012
7.3 ÷ 1.3 staff per vehicle = $57,558 = FY2013

Operating Costs
FY2010 = $ 199,774
FY2011 = $ 201,351
FY2012 = $ 202,140
FY2013 = $ 202,140

One Time Costs for additional personnel operating costs

Cameras	$ 130
GPS	$ 215
Cubicle work area, counter, bookcase, walls, 2 drawer cabinet	$2,500
PC & Printer	$1,600

Chair	$ 350	
Calculator	$ 100	
Computer/Phone (cost of duplex jack)	$ 350	
Total one time costs	$5,245 X 7	= $ 36,715 for FY 2010

Annual Costs:		
PC Replacement (1/4 replacement)	$ 400	
Network costs	$ 960	
Supplies	$ 200	
Phone (Basic rate $336)+(Long distance $100)	$ 436	
Rent Non-DOA Building (250 sq. ft. x $15.00)	$5,500	
Training	$ 200	
Total annual costs	$7,696 X 7	= $ 53,872 for FY 2010
	$7,696 X 7.2	= $ 55,411 for FY 2011
	$7,696 X 7.2	= $ 55,411 for FY 2012
	$7,696 X 7.2	= $ 55,411 for FY 2013

Operating Costs

FY2010 = $ 90,587
FY2011 = $ 55,411
FY2012 = $ 55,411
FY2013 = $ 55,411

REAPPRAISAL INTERIM YEAR - TIME TREND ADJUSTMENTS

The national standard for reappraisal cycle property reviews is at least one on-site property visit each cycle. Interim year valuation adjustments are also accepted standards. This approach contemplates a reappraisal cycle duration as determined by the Montana legislature, with a base year valuation date, and interim year valuation adjustments of residential property during the cycle to help eliminate "sticker shock", to provide a mechanism to also acknowledge "downturns" in the market, and to help provide equalization.

The Department would contract with an outside expert to perform sales/assessment ratio studies and time trend analyses by market area and recommend interim year residential property valuation adjustments for each market area.

FY2010 (last half) – Operating = $75,000
FY2011 (last half) – Operating = $75,000
FY2012 (last half) – Operating = $75,000
FY2013 (last half) – Operating = $75,000

Under the current 6-year reappraisal of all real property and personal property homes are only printed in the first year of the reappraisal cycle. Instead of printing all assessments once every 6 years, they would be printed every 4 years. (Assessments mailed by 6/30/2014). Making annual valuation adjustments to residential property as a result of sales/assessment ratio studies – time trending analyses means assessment notices will also have to be mailed in Fiscal Years 2010, 2011, 2012, and 2013. The costs of that effort are:

FY2010 (last half) – Operating

Printing of Assessments	$0.32 X 454,795 = $145,535
Mailing Assessments	$0.38 X 454,795 = $172,820
Total	$318,355

FY2011 (last half) – Operating

Printing of Assessments	$0.32 X 454,795 = $145,535
Mailing Assessments	$0.38 X 454,795 = $172,820
Total	$318,355

FY2012 (last half) – Operating

Printing of Assessments	$0.32 X 454,795 = $145,535
Mailing Assessments	$0.38 X 454,795 = $172,820
Total	$318,355

FY2013 (last half) – Operating

Printing of Assessments	$0.32 X 454,795 = $145,535
Mailing Assessments	$0.38 X 454,795 = $172,820
Total	$318,355